Austria	Sch22	Indonesia	Rp3100	Oman	Or1
Bahrain	Din0.700	Iran	Rls210	Philippines	Peo40
Belgium	BFr50	Israel	NS3.50	Portugal	Esc140
Cyprus	C£0.90	Italy	L1700	Qatar	Qr9.00
Denmark	DKr10.00	Jordan	Fils500	S.Arabia	Rls7.00
Egypt	E£3.25	Kuwait	Fils500	Singapore	S$4.10
Finland	Fmk7.00	Lebanon	£250.00	Spain	Pta145
France	FFr7.00	Lux	LFr50	Sweden	SKr10
Germany	DM2.30	Malaysia	Rin4.25	Switz	SFr2.40
Greece	Dr120	Morocco	Dh6.00	Thailand	Bht50
Hong Kong	HK$12	Neth	Fl3.00	Tunisia	Din0.800
Iceland	Ikr125	Nigeria	Naira10	Turkey	L1800
India	Rup15	Norway	NKr10.00	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

EUROPE

Aerodynamics of monetary union

Page 13

No.30,914 | Monday August 7 1989 | D 8523A

World News

Kaifu is favourite to win Tokyo leadership

Toshiki Kaifu, a former education minister, seems almost certain to win the leadership election of the ruling Liberal Democratic Party to become Japan's third prime minister this year.

Communist poll setback
The Hungarian opposition has scored by-election triumphs which would spell massive defeat for the ruling communists if repeated in free nationwide polls. Page 14

Major to visit Hong Kong
Mr John Major, the British Foreign Secretary, intends to visit Hong Kong for talks with politicians and community leaders, the Government confirmed yesterday.

Rockets greet Shevardnadze
Eduard Shevardnadze, the Soviet foreign minister, arrived in Kabul for two days of talks with the Moscow-backed government amid heavy rebel rocket attacks.

Sri Lankan monk killed
A Buddhist monk and 55 people died in Sri Lanka in two days of fighting between left wing rebels and pro-government militia.

Greenpeace A-bomb protest
Greenpeace activists protesting against nuclear tests threw a mock bomb into the eastern sector of Berlin to commemorate the atomic bomb attack on Hiroshima.

Banks eye Mexico deal
A group of Mexico's commercial bank lenders is trying to put together up to $500m in standby financing to provide support in case oil prices fall. Page 19

Philippines requests $1.7bn
The Philippines will ask for new loans and debt relief to help bridge a $1.7bn financing gap when it opens debt talks with foreign banks in New York on Tuesday.

Bangladesh flood toll up
President Hossain Mohammad Ershad of Bangladesh visited northeastern parts of the country where more than 200 people have died and half a million people have been stranded in recent floods.

Mozambique debt troubles
Mozambique says it cannot pay back its foreign debt of over $4bn and wants more Western creditors to write off parts of it or agree to easier payment terms.

Bhutto ally arrested
A senior member of Prime Minister Benazir Bhutto's Pakistan People's Party was arrested in the opposition-ruled Punjab, deepening the rift between her Government and the opposition.

Commonwealth ponders SA
Eight Commonwealth foreign ministers meet in Canberra to discuss intensified sanctions against the South African government amid mounting controversy over proposed cricket and rugby tours.

Nato calls for Soviet cuts
Manfred Woerner, Nato Secretary General, called on the Soviet Union to cut military spending or face failure in its social and economic reform programme.

West Bank violence resumes
An Israeli soldier was set briefly on fire when Palestinians hurled Molotov cocktails at a patrol in Nablus in the occupied West Bank ending a period of relative calm.

Soviet sub skipper blamed
A Soviet inquiry into the sinking of a nuclear submarine in April blamed the disaster on the sub's captain and "a whole series of technical imperfections in the different systems of the submarine".

Kurds protest in Paris
Kurdish demonstrators climbed part of the Eiffel Tower in Paris to protest against Turkey's alleged mistreatment of Kurds.

Court to rule on abortion
A Quebec court will decide whether a Quebec woman can end her pregnancy or whether a former lover has the right to prevent her.

Boost for UK tourism
Tourism investment in England in the first six months of 1989 rose by 40 per cent over the first half of last year to reach £3.34bn and follow publication of figures showing Britain is heading for a record year in tourism.

Business Summary

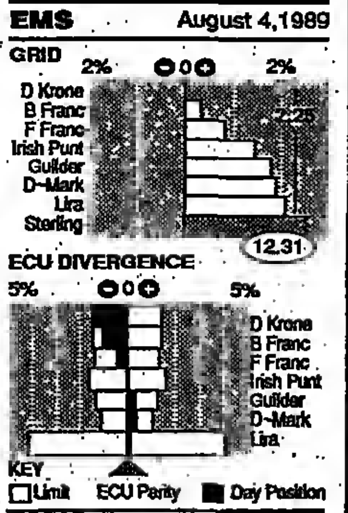
Jefferson Smurfit to combine US operations

JEFFERSON SMURFIT, Irish packaging group, is combining its main US paper and paperboard operations in a highly leveraged deal which could net it about $1bn in profits.

Morgan Stanley, blue-chip Wall Street investment bank which is in a joint venture with Smurfit, will book a profit of $140m on the deal. Page 14

EUROPEAN Monetary System: The strength of the Spanish peseta in the EMS prompted a comment from the Danish Central Bank last week on tha relationship between the peseta and the weakest placed Danish krone. The Danish authorities indicated there was no need for action and "still a lot of room" before the limit of DKr6.231 per 100 pesetas was reached. The rate last week was around DKr6.20 per 100, with the peseta over 5.50 per cent up from its EMS central rate, against an allowed limit of 6 per cent.

EMS August 4,1989



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira and Spanish peseta) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

GRUPO TORRAS, Spanish industrial holding company in which Kuwait Industrial Office has a 40 per cent stake, reported 82 per cent rise in pre-tax profits to Pta8.95bn ($75m) for first half 1989 from Pta4.91bn a year ago. Earnings per share rose 36 per cent to Pta91 from Pta67. Page 19

SUN MICROSYSTEMS, US workstation company, will announce a manufacturing agreement with Philips of the Netherlands for semiconductors in which the Dutch company will make chips based on Sparc technology it will license from Sun. Page 19

WARD WHITE chairman and managing director Philip Birch is likely to come under growing pressure this week to produce alternatives to a bid from Boots, the UK's retail chemist and pharmaceutical group, valuing the do-it-yourself retailer at £900m ($1.45bn). Page 6

NUCLEAR REACTORS: UK Government faces renewed pressure from the electricity industry to take the main financial responsibility for Britain's newer nuclear plant, the troubled Advance Gas-cooled Reactors, ahead of privatisation next year. Page 6

CETUS, California bio-technology company, reported increased fourth-quarter losses of $14.3m against $9.37m a year earlier, boosting the loss for the year ended June 30 to $49.9m from $32.6m in 1988. Page 19

PRIME COMPUTER, Massachusetts minicomputer group which spent most of the last year fighting a $1.1bn bid from MAI Basic Four, a smaller computer company, suffered a further setback when J.H. Whitney, the venture capital company which had agreed to white knight leveraged buy-out to rescue Prime said it was reducing its $21.50-a-share cash offer to $20. Page 19

LLOYDS Bank, of the UK, says banks may have become over-exposed in lending to the UK property sector. Page 6

PAN AM Corp, parent of struggling Pan American World Airways, reported second quarter net losses of $7.7m against a loss of $5.0m a year earlier. Page 19

AFP, Australian-owned investment group which controls Gestetner in the UK, has won effective control of three Australian companies which are part of Chase Corporation, the troubled New Zealand group. Page 19

Kidnappers offer to free hostage in exchange deal

By Hugh Carnegy in Jerusalem and Peter Riddell in Washington

A PRO-IRANIAN group in *Lebanon announced last night* that it was prepared to free Mr Joseph Cicippio, the US hostage, if Israel released both the Shia Moslem leader it kidnapped 10 days ago and a further 450 Arab prisoners.

Although Israel is certain to reject the proposal in its present form, the offer by the Revolutionary Justice Organisation implies that at least some of the kidnappers are ready to negotiate an end to the hostage crisis.

In a statement issued in Beirut, the kidnappers offered to free Mr Cicippio if Israel halted deportations of Palestinian activists and allowed those already expelled to return.

They also insisted on the return of Sheikh Abdul Karim Obeid, the Hizbollah leader whose capture by Israeli commandos precipitated the current crisis, and demanded the release of 150 Lebanese prisoners and 300 Palestinians held during the uprising in the Israeli-occupied territories.

Israel has offered to exchange Sheikh Obeid and some 300 Lebanese Shia Moslems in exchange for three captured Israeli soldiers and all the Western hostages in Lebanon.

The Israeli Government has ruled out any deal which excludes the Israeli captives *held since 1986, but the kidnappers'* statement did not mention them, indicating that lengthy negotiations lie ahead.

Another US hostage, Lt Col William Higgins, was reportedly killed a week ago by his captors when Israel refused to release Sheikh Obeid. Mr Cicippio was threatened with death but reprieved after the US appealed to Iran to intervene with its Hizbollah proteges and deployed its naval forces in *apparent readiness for military* retaliation.

Hizbollah, an Iranian-funded umbrella organisation thought to control most of the hostages, has drawn a distinction between the Western "hostages" and the Israeli "prisoners".

Last night's statement in Beirut came after a day of conflicting signals about the prospects for an exchange of captives. The US maintained its *military preparedness while* pursuing diplomatic efforts to rescue the hostages.

In Jerusalem, the Israeli cabinet heard reports on the hostage crisis from Mr Yitzhak Rabin, the defence minister, and Mr Moshe Arens, *the foreign minister, at its regular* Sunday meeting.

Israel is deliberately not expanding on its stance beyond its offer of a prisoner exchange, something it has accomplished on a number of occasions in the past, usually after long and secret diplomacy.

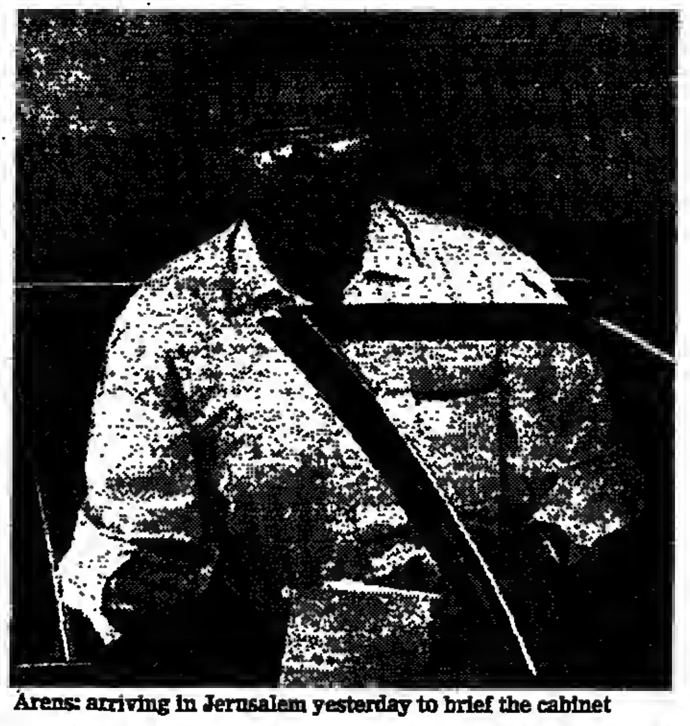
Its position on the possibility of including Palestinians - as demanded by Hizbollah - is unclear. The Shia group has already named some Palestinians it wants freed, notably the man who forced a bus off the Jerusalem-Tel Aviv highway last month killing 16 people.

Mr Arens, answering criticisms of the Israeli kidnapping of Sheikh Obeid, said that if the US and Israel continued on their present course of talking and acting tough to the terrorists and those who back them, of not giving into their demands, "then I think we may not see many more abductions in the Middle East."

The Bush administration over the weekend continued its intensive diplomatic efforts to free the hostages, particularly through the Algerians and other countries in the region, but was publicly offering a low profile.

President George Bush spent the weekend at Camp David in Maryland and other senior Cabinet offices were also out of Washington. Unusually there

Continued on Page 14
Mediators' skill tested, Page 3



Arens: arriving in Jerusalem yesterday to brief the cabinet

Contra rebels lose political support

By Tim Coone, in Tela, Honduras

A 90-day timetable for the demobilisation of the US-backed Nicaraguan Contras appears to be an early likely result of the Central American presidential summit being held at the resort of Tela in Honduras.

Although few details of the discussions between the five presidents at the three-day summit have yet been released, the signing on Friday of an agreement in Nicaragua between the Government and 20 opposition parties calling for a demobilisation of the right-wing guerillas, has left the Contras without any internal political support for continued armed struggle.

Dr Oscar Arias, the Costa Rican President who is one of the prime movers of the regional peace process, said on his arrival that he was "content" with the Nicaraguan "national dialogue" agreement.

He expressed optimism that a "gradual" demobilisation plan could be agreed to by the five leaders.

He had said earlier in San Jose, Costa Rica, that the start of the demobilisation process could not wait until after next February's elections in Nicaragua.

In Washington, the Bush Administration, however, has stated that it wished the Contras to remain as a latent threat in their Honduran sanctuaries as a means of putting pressure on the Nicaraguan Sandinista Government to carry out free and fair elections.

But that position does not now enjoy support even from the right-wing civilian opposition in Nicaragua as a result of last Friday's agreement.

In exchange for opposition support for the demobilisation proposal, the Nicaraguan Government has made substantial concessions.

These include:

- a promise of a "broad and unconditional amnesty" for contra prisoners and collaborators, which will take effect as the demobilisation plan is implemented;
- a suspension of further recruiting for military service until after the February elections;
- a weakening of a Public Order Decree and reforms to legislation which will reduce police powers of arrest and detention;
- an agreement to a constitutional reform permitting a handover of power 60 days after the elections instead of having to wait until November 1990 in the event of a Sandinista defeat at the polls.

Political observers in Managua, the Nicaraguan capital, have been surprised at the extent of the concessions made by the Government. They also did not expect the call by the opposition for the Contras' demobilisation and an additional appeal to foreign governments not to interfere with the electoral process in Nicaragua.

This is a veiled reference to US Government plans to provide covert funding to opposition parties.

Congress clears $166bn rescue of savings and loans industry

By Peter Riddell, US Editor, in Washington

THE GO-AHEAD for plans to rescue the US savings and loans industry at a cost of $166bn over 10 years – the biggest federal bail-out in the country's history – has been given by the House of Representatives.

The narrow vote, by 201 to 175, which came just after midnight on Saturday morning, ended weeks of wrangling within the Congress and between congressional leaders and the Bush Administration. The controversy has centred on how the cost of the rescue should be financed and in particular whether the Gramm-Rudman law for reducing the budget deficit should be waived.

The legislation, which now awaits signature by President George Bush, not only provides for the closure or rescue of hundreds of insolvent and financially weakened savings and loans institutions, but also strengthens the powers of regulators and lays down stricter standards for levels of equity in the institutions and for permissible investments.

The rescue is necessary to fulfil past federal pledges of insuring deposits. The money will be used to pay off depositors in insolvent institutions.

The approval came after a revolt by several leading Democrats against a compromise plan drawn up last Thursday which they claimed was a device to hide the true cost of the rescue and to mislead taxpayers.

The compromise put $20bn of the rescue's initial cost on the budget this year and $30bn outside the normal budget calculations.

The decision to charge $20bn against this year's budget is a traditional piece of creative accounting since it is too late for the Gramm-Rudman law to apply and require offsetting cuts in spending.

In the end, the combined pressures of the threat of a presidential veto, losses running at $20m-plus a day and the imminence of the Congressional August recess prevailed and the compromise was reluctantly approved.

Roughly three-quarters of the $166bn will be borne by taxpayers. However, many members of the Congress reckon that the eventual cost may be much higher and that this will be unpopular with their constituents.

The eventual compromise infuriated key House committee chairmen like Mr Dan Rostenkowski of the ways and means committee and Mr Leon Panetta of the budget committee, producing strained relations with the Administration prior to critical negotiations next month over cuts in capital gains tax and achieving the deficit reduction target for fiscal 1990.

Before the recess started, both houses of Congress approved legislation temporarily increasing the ceiling on federal borrowings to prevent a default by the US Government later this month.

UK stalls Japan on bid for banking licences

By David Lascelles, Banking Editor, in London and Ian Rodger in Tokyo

THE UK is stalling Japanese regional banks which want authorisation to operate branches or subsidiaries in London in an attempt to increase the pressure on Japan to open up its stock exchange to foreign membership.

Although several UK houses have been allowed to join the Tokyo stock exchange, two major ones, Barclays de Zoete Wedd and James Capel, are still being kept out. The UK hoped to resolve this impasse at the recent summit of world leaders in Paris, when Mrs Margaret Thatcher, the Prime Minister, met her then opposite number, Mr Sousuke Uno. But no progress was made.

Although all major Japanese banks have a presence in London, there is a *lengthening list* of regional Japanese banks which are keen to obtain licences, and they are seen by the UK as a means of applying leverage on the Japanese authorities.

The pressure is being applied delicately – by discouraging Japanese banks from even seeking licences rather than formally turning down applications. The Bank of England, the official licensing authority, said last week there had been no formal applications for licences recently by Japanese banks. However, it is believed that several Japanese regional banks which made soundings at the Bank were told that the time was not right.

One of them was Hyakujushi Bank which wanted to buy Japan International Bank, a Japanese-owned London consortium bank. Other Japanese banks which want to have full branch operations in London include Hokuriku Bank and Chiba Bank.

One bank which did recently obtain Bank of England approval was Yokohama Bank which bought Guinness Mahon, the merchant bank, in June. However Yokohama Bank was already established in London with a licence.

The UK is not optimistic that progress in obtaining more TSE seats will be quick.

The tensions are part of the battle by the West for easier access to the Japanese market. Reciprocity has been used as the main weapon. In its previous phase, the UK barred the Japanese securities houses from the UK gilt-edged market until concessions were made.

Frustration rises with inflation in Poland's food shops

By John Lloyd in Warsaw

IN POLAND, shopping is not a part of life. It is life – in all its rawness, opportunities, disappointments and miseries. Mainly its miseries.

It is impossible to understate the importance of shopping in Poland especially since prices were generally freed from subsidy on August 1. The price rises monopolise conversations, grumblings and newspaper features. They have not yet caused riots, but they appear to have stirred up a threatening apathy.

The frustrations which shopping engenders may be the catalyst to impel the economy into market relations. It is, in truth, dreadful as I discovered last week. The main self-service stores serving the acres of tower blocks are dingy, empty of meat and vodka, surrounded by queues. People buy huge *sunflower* heads and chew the seeds as they shuffle about, looking for bargains.

My guide, a university lecturer, said she thought the relative abundance and cheapness of vegetables in some parts of Warsaw had dulled the impact of last week's price increases: come November, it would sink in.

Polish shopping means poor quality, narrow choice, rising prices, surly service and fractious queues. Polish shopping is envy, greed, frustration, anger and misery. Consumers of Poland, unite! You have nothing to lose but your yokes!

Speaking of which, eggs are up sharply this week: from around Zs20 to Zs80 each. Butter which cost Zs800 a kilo, now costs at least Zs1600. A jar of jam from the Tarczyn processing plant (the state's biggest) was about Zs200, now goes for Zs400.

As for meat – can you get it at all? The prices are still not high enough for the Polish farmers, who are bringing too few of their beasts to the state slaughter-houses, preferring to sell privately. There was no meat to be had at 1.30 on Friday afternoon in the big Supersam (self-service supermarket) in the central Mokotow district of Warsaw: but a queue of perhaps 150 men and women had formed, silent and nervy, for the meat delivery due at 4 pm.

Beside them, another queue (which was at least moving) waited to get into the main body of the store. Supersam regulates the number of cus-

Continued on Page 14

CONTENTS

THE MONDAY INTERVIEW

Mariano Rubio Jiminez, governor of the Bank of Spain, is a serious man. He represents a triumph for consistency in a country where many institutions have been buckled beyond recognition in the last 20 years. Page 30

Progress seen on debt problem

Stephen Fidler interviews Citibank's chief debt negotiator

MR William Rhodes, the chief debt negotiator for Citibank, played a central role in the negotiation late last month of a landmark debt agreement for Mexico, the first to put into effect the debt initiative launched in March by the US Treasury Secretary, Mr Nicholas Brady.

As co-chairman of the 15-bank advisory committee of leading Mexican bank creditors (along with Mr Angel Gurria of Mexico) and chairman of bank committees from other important debtor countries, including Brazil and Argentina, he has played a significant role in almost every important debt agreement since the debt crisis broke in 1982.

In an interview, he responded to questions from the Financial Times about the Mexican package, agreed in principle in Washington on the weekend of July 23.

The agreement, which covers the entire $52.7bn of medium and long-term debt to banks, will allow banks to help Mexico by taking one or more of three financing options: (i) swapping their old loans for 30-year bonds carrying market interest rates but a face value equal to 65 per cent of the old loans; (ii) swapping old loans for bonds with a below-market 6¼ per cent interest rate but with the same face value; (iii) making new loans equivalent to 25 per cent of their exposure over four years. The bonds under the first two options are "enhanced" by $7bn in resources, including funds from the World Bank and International Monetary Fund.

Q: Why is it said that the new debt reduction deal for Mexico depends on banks extending "new money"? How many banks need to take the new loans option and are you concerned that the necessary loans may not be forthcoming?

The reading we are getting within the advisory committee, based on conversations with creditor banks around the world, is that as of now 45 to 55 per cent of the outstandings are leaning toward debt-service reduction, 25 to 30 per cent toward debt-principal reduction and perhaps 20 to 25 per cent toward new money. However, banks will continue to evaluate the options as the details are worked out, and some may change their thinking.

Those of us working on the package believe that if 25 per cent goes to new money, Mexico will be able to fund its economic programme, including its investment commitments and its share of debt enhancements. The distribution among the three basic options is key, and I think it illustrates the point that restructuring countries need balanced packages, with a new money component where appropriate, because debt reduction alone cannot always do the job.

Q: The most popular option seems likely to be the bonds with the fixed interest rate of 6¼ per cent. But with interest rates falling in the US, doesn't that mean that the benefits to Mexico will be reduced?

I look on these bonds as long-term protection for Mexico against one of the major causes of the debt crisis, namely the extraordinary rise of Libor interest rates in the early 1980s to more than 20 per cent. In effect, these bonds give Mexico a 30-year interest shield.

Q: Some fairly important details of the agreement need to be worked out. Can you explain the main points still to be resolved? Now that an agreement in principle has been reached, is there a risk that the urgency may have gone from the talks?

Among the key issues are the specifics on up-fronting the enhancements – making the funds available to Mexico early in the agreement for maximum effect. We are working on this with the Mexican government, the IMF, the World Bank and the Japanese Ex-Im Bank. Other important issues are reaching agreement on waivers and currency options. As for timing, we would hope to have a term sheet agreed over the next several weeks, to have the complete package sent to banks worldwide by end-August, and to have roadshow presentations to the banks worldwide in early September. We realise that the deal is far from done, and we have lost no sense of urgency.

Q: Some European bankers seem resentful of the US Treasury's role in the deal. How much intervention was there from the Treasury to get it done?

Notwithstanding some press reports from Washington, nearly all the major issues of the agreement in principle had been settled between the Mexican negotiating team, which at times included (Finance) Minister (Pedro) Aspe, and the advisory committee, with help from the committee banks' chairmen, prior to the weekend session in Washington. Only a few issues remained and the Fed and the US Treasury were helpful in working out several of these, particularly the question of up-fronting the enhancements, which required official input.

Q: It seems clear that the debt agreement will not result in a sharp drop in Mexico's $100bn foreign debt. What then is the significance for Mexico?

The agreement offers Mexico real debt reduction along with new money, which it needs to support its growth programme. But what's important is not necessarily the percentages. Rather it's that this agreement should help Mexico reduce the cost of servicing its debt, including its very important internal debt, and attract new investment from domestic and foreign sources. Already, as our negotiations progressed over the past few weeks, internal interest rates have dropped by more than one-third and there are signs of new investment inflows. It all boils down to regaining confidence, a lack of which contributed to the debt crisis in the first place.

Q: How much will the Mexican debt deal provide the mould for debt agreements for other countries? How might they differ?

We'll all learn something from the Mexican agreement, once it is completed, but it won't be a cookie-cutter for other countries. Each country situation is different, and other countries may not need an agreement this complicated. Some may need only one debt-reduction vehicle. Some may do a cash buy-back or use an auction. Some will need new money, others won't. The Mexican agreement puts primary emphasis on debt reduction, but the case-by-case approach will continue.

Q: While the Mexican picture looks brighter for now, a senior British banker said recently that the outlook for the debt problem was "darkening". What's your view?

It's fair to say that some senior bankers feel that the debt situation has deteriorated over the past year. However, there are signs of important progress in a number of key countries. These include Mexico, Colombia, the Philippines and Chile. The top priority now is to complete the Mexican agreement, which should help the country move out of the debt crisis and enter a period of sustained growth.

Mr William Rhodes,(above) the Citicorp senior vice-president in charge of debt negotiations since the start of the developing country debt crisis in 1982, is to be promoted. Mr John Reed, the bank's chairman, said his new position "will be more senior and have more general international responsibility". He would continue to devote some time to the debt issue, he said.

The assumption in the bank is that Mr Rhodes, 53, will continue to be active on the Mexican debt package and take up next year his new position – a formal title for which has not yet been announced.

Brazilian MPs offer emergency economic plan

By Ivo Dawnay in Rio De Janeiro

MOUNTING alarm over rising inflation and its electoral consequences has provoked the Brazilian Congress to propose an emergency economic plan to President Jose Sarney's lame duck administration.

Among the 30-odd measures to be discussed this week are cost saving cutbacks specifically ruled out by Senators and Deputies when they debated Finance Minister Mailson da Nobrega's anti-inflation package last January.

Behind the Congress's panline conversion to fiscal rectitude lie not just fears of hyperinflation but a growing conviction that the electorate will wreak its revenge on the country's political establishment in the presidential elections due on November 15.

Public opinion is perceived as attributing the blame for Brazil's current 28 per cent a month inflation as much to Congressional obstructivism as to the enfeebled president.

Parties linked to the government like the centrist Brazilian Democratic Movement (PMDB) and the conservative Liberal Front (PFL) are currently trailing in the polls.

Way in front in the presidential race is Mr Fernando Collor de Mello, a 39-year-old former state governor who has successfully distanced himself from both the Sarney regime and the mainstream parties. Furthermore, next year the House of Deputies and a third of the Senate must stand for re-election.

"Congress has woken up to the fact that it is closely associated with the failures of the Sarney government," Professor David Fleischer of Brasilia University commented yesterday.

As a consequence, a coalition of parties - excluding the left - has submitted a new package to the president proposing dramatic spending cuts. Among the measures are:

- The selling of minority shareholdings in state companies.
- An eight month halt to all subsidies and fiscal incentives.
- A crackdown on state sector privileges and perks including the sale of ministerial residences and official cars.
- Tougher monetary discipline and faster tax gathering.
- The closure of non-essential government agencies.
- Steps to bolster competition in markets.

It was Congress who opposed several similar proposals in Mr da Nobrega's so-called Summer Plan at the beginning of the year. It refused to allow the closure of five ministries and passed the buck on a move to dismiss up to 90,000 civil servants. Politicians presenting the the package have still implicitly attempted to blame Mr da Nobrega for the country's plight by proposing a new "super-ministry".

Fears grow of fresh rash of Soviet coal strikes

MAJOR coal strikes which spread from Siberia across the country last month could flare again because managers are dawdling in carrying out promises over pay and conditions, a Communist Party official said yesterday, Reuter reports from Moscow.

In an interview published in the daily Sovietskaya Rossiya, a regional Communist Party chief said the coal ministry was clinging to old authoritarian methods and warned that tension among workers was growing. The remarks underlined the fragile nature of the industrial peace declared in the aftermath of last month's strike, which involved hundreds of thousands of workers.

Meanwhile, Tass news agency said that miners in the pits of Vorkuta, high in the Arctic Circle, refused to work yesterday after a 24-hour stoppage prompted by managers' failure to give them written guarantees on pay and conditions.

Miners at 11 of the 13 pits in Vorkuta, also hit by last month's strike, had voted at a meeting late on Friday to stop work again in protest at a failure by management to give them details of the package that ended last month's disruption. Documents were quickly rushed to the city on Friday and the workers voted the following evening to return to work yesterday.

Under the package, miners were granted a 35-point package which Prime Minister Nikolai Ryzhkov said would cost the floundering economy a crippling Roubles 2 bn. However, miners' leaders also made clear at the time that they had suspended rather than called off their action, and warned they would down tools again if officials failed to honour pledges on pay, conditions and a host of other local issues.

On Thursday, miners at 17 pits in the Kuzbass region stopped work for two hours to protest against the failure of local officials to halt work on a reservoir scheme along the Tomi river, as they promised.

- Mr Vyacheslav Kostikov, a writer in the outspoken Soviet weekly Ogonyok asserted that the Bolsheviks' decision to ban all other parties soon after the 1917 Revolution lost them popular support and set in motion Stalin's terrible repression.

OBITUARY: PAOLO BAFFI

Man who became the Bank of Italy's conscience

By Alan Friedman in Milan

MR PAOLO BAFFI, Governor of the Bank of Italy during the turbulent late 1970s, a long-serving member of the board of the Bank for International Settlements, and one of the great figures of post-war Italian finance and banking, died at the weekend in Rome following a long illness.

Mr Baffi, who until recently went daily to his office at the Italian central bank where he remained honorary Governor, died only hours before his 78th birthday.

As central bank governor from 1975 to 1979, he presided over the blackest days of recent Italian economic history. When he took over from Governor (now Treasury Minister) Mr Guido Carli in 1975, Italy faced a currency crisis and spiralling inflation.

A figure of towering honesty and authority, Mr Baffi helped to guide Italy as it joined the European Monetary System (EMS) and as it faced the second oil price shock.

The gravest crisis he had to deal with arose out of the occult and sinister forces of the outlawed P-2 Freemasons' Lodge and from such shadowy figures in the financial world as Roberto Calvi and Michele Sindona.

In March 1979 magistrates sent *carabinieri* to the Bank of Italy to bring unsubstantiated charges against Governor Baffi, and to haul off to prison Mr Mario Sarcinelli, deputy director-general at the central bank.

The charges were later shown to be trumped up, probably with the collusion of the P-2; but Mr Baffi never recovered from the shock, and resigned from the Bank.

The accusations against him were, arguably, one of the most serious attacks on the authority of the post-war Italian state. The Financial Times compared it, at the time, to the kidnap and murder of ex-Prime Minister Aldo Moro.

The affair blew up after two courageous moves by the central bank: its support of Mr Giorgio Ambrosoli, court-appointed liquidator of the Sindona banking empire who was himself assassinated in Milan in 1979, and the ordering - at the behest of Mr Sarcinelli - of a Bank of Italy inspection of Mr Roberto Calvi's Banco Ambrosiano.

Yesterday, Italian newspapers recalled pointedly that back in 1979 Mr Giulio Andreotti - who was Prime Minister then and assumed that office for a sixth time last month - confined himself to the most tepid comments on the Baffi affair.

The casual stance of Mr Andreotti - who had looked favourably on a rescue for Sindona's banking empire - contrasted sharply with the messages of support that Mr Baffi received from leading economists and bankers like Paul Volcker and David Rockefeller.

Mr Baffi was born in 1911 in the Lombard town of Pavia and after taking a degree in economics became a lecturer before joining the Central Bank in 1936.

In the late 1950s he served as financial adviser to the Bank of Italy and the BIS in Basle and was director-general of the Italian Central Bank from 1960 until his appointment as Governor in 1975.

A brilliant economist, Mr Baffi was a very private man who displayed an acute sense of irony and wit to those who knew him.

Speaking to this correspondent last year, he complained of the "still medieval power centres at work in modern Italy."

His honour and dignity were legendary. Mr Carlo Azeglio Ciampi, the current central bank governor, yesterday called him the bank's "critical conscience".

Dutch growth forecast to slow

By Laura Raun in Amsterdam

THE Netherlands' economic growth will slow to an average of 2.5 per cent between 1990 and 1994, hampering efforts to pare the gaping budget deficit, according to the Dutch Central Plan Bureau.

The semi-official forecasting bureau predicts that expansion of the gross national product will dwindle because of less buoyant world trade and United States growth, as well as a lower dollar.

Dutch GNP will climb four per cent this year and taper off to three per cent in 1990, the Bureau announced.

With early general elections due to be held on September 6 the medium-term macro-economic forecast takes on particular political significance.

The figures, which are slightly less optimistic than previous scenarios, will be used by the Dutch political parties in their election campaign platforms and by the new coalition partners in their governing accord.

Mr Gerrit Zalm, director of the Bureau, geve a warning that the next government administration would have a more difficult time in trying to shrink the huge budget deficit than the Christian Democrat-Liberal coalition which collapsed in May.

All the major political parties are aiming to trim the deficit by around two per cent of national income over the 1990-94 cabinet period.

Moreover, Mr Zalm noted that the previous coalition led by Prime Minister Ruud Lubbers had exhausted most of the less painful ways of cutting the deficit – selling off state holdings and shifting housing financing off budget.

Climate of fear over Mafia grows in Sicily

By Alan Friedman in Milan

THE CLIMATE of fear and confusion in Sicily since the revelation of two attempts to assassinate an anti-Mafia judge worsened yesterday after reports of suspected Mafia "moles" in the police and the murder of a policeman and his bride.

The policeman, Antonino Agostino, was gunned down on Saturday, along with his 20-year-old wife, while bathing at a beach near Palermo. The authorities are convinced that the four killers were acting under orders of a newly re-organised Mafia clan.

Worries were growing among anti-Mafia forces amid allegations that dozens of telephones, including those used by Judge Giovanni Falcone, had been subject to wire-tapping. Reports that bugs had been found in the offices of the top anti-Mafia judge were both confirmed and denied in the past 48 hours. Anti-Mafia officials and Rome have been trying in recent weeks to identify suspected "moles".

Paz Zamora takes office under cloud of doubt

By Barbara Durr in La Paz

MR JAIME PAZ ZAMORA, a former exile with left-wing leanings was elected as president of Bolivia after forming an alliance with a military leader whom he had sought to overthrow over a decade ago.

The presidents of Argentina, Brazil, Panama, Paraguay, Peru and Uruguay were to attend an inauguration ceremony late yesterday, but Mr Paz Zamora, 50, will take office under a cloud of doubt, with the validity of an election two months ago questioned by the unsuccessful parties.

Mr Paz Zamora, who leads the Social Democratic Party Movement of the Revolutionary Left (MIR), placed third in the May election with 19 per cent of the vote, was chosen as president by the Bolivian parliament early on Saturday morning after an all-night debate in which he won 97 of the 156 congressional votes.

His victory came from a coalition with former military dictator, Retired General Hugo Banzer, head of the conservative Nationalist Democratic Action (ADN) Party, and the country's leader from 1971 to 1978.

The MIR and the ADN will rule in a national unity government, the third in seven years of constitutional democracy, and General Banzer will head the top policy-making body, while his party will have at least half or more of the ministries.

The general, with 23 per cent of the vote, was placed second in the May election and last week allied with Mr Paz Zamora, largely in order to prevent Mr Gonzalo Sanchez de Lozada, leader of the National Revolutionary Movement, which won 24 per cent of the vote, from becoming president.

General Banzer, while politically closer to Mr Sanchez, has deep personal differences with him. Ironically, the general had jailed Mr Paz Zamora and forced him into exile in the 1970s.

After a crisis of economic confidence last week, with a run on banks and a 10 per cent plunge in the Bolivian currency's value on the black market, the new president, a former Marxist, gave assurances that he will maintain a free market economy.

Mr Paz Zamora said that he would rule with "humility, courage and serenity".

Dominicans lobby to join Club Caribbean

Canute James reports on stumbling blocks to membership of a trade and aid accord

THE EFFORTS of the Dominican Republic to become a signatory to a trade and aid agreement between the European Community and severel developing countries is causing more than passing concern to the Caribbean beneficiaries of the pact.

The Dominicans have intensified their efforts to be listed among the African, Caribbean and Pacific (ACP) group which is linked to the EC through the Lomé Convention. But the Caribbean states, which say they do not object to the expansion of the ACP, are worried that the Dominican Republic could bring added competition for markets in Europe.

"The Caribbean states are concerned at the likely impact of Dominican membership on the existing merket for bananas, sugar and rum," explained Mr Byron Blake, director of economics of the Caribbean Economic Community (Caricom).

But representatives of the Dominican Republic argue that these fears are groundless. "The Dominican Republic is disposed towards respecting the traditional markets of the ACP states and to being a good family member of the Caribbean part of the ACP," said Mr Samuel Coode, chairman of the country's private sector committee which is supporting the application. "I do not foresee any major difficulties."

Concern about the likely impact of a new member on the benefits which ACP states are hoping to get under the fourth Lomé Convention is not limited to the Caribbean. But fears about the Dominicans are reflected in a comparison of its application with that of Haiti. Haiti is poor and has little productive capacity to threaten existing market access.

"We have already taken a decision in favour of Haiti," said Mr Edwin Carrington, secretary general of the ACP group. "But that does not mean that we will automatically do the same for the Dominican Republic. We are concerned about sugar, among other things.

"The Dominican Republic and the EC jointly give certain guarantees about the sugar protocol, which essentially would mean that the Republic would not be seeking to accede to [it] as it is. This is the major stumbling block for the Dominican Republic as far as we are concerned."

Caribbean officials argue that although the country of 6m people is a major producer, but small exporter of bananas, there is reason for concern over whether the country would be party to the banana protocol.

They say also that as a major sugar producer, the Dominican Republic has been suffering reduced access to the US market and would find the price offered by the EC attractive. There are also fears that the republic could be a competitor on the rum market.

Many Caribbean countries are concerned about the impact of the Dominican Republic on Europe's market for bananas

At the annual Caricom summit in Grenada earlier this month, spokesmen for several regional governments said they were willing to accept the Dominicans' guarantee not to seek to benefit at the expense of Caribbean countries in the markets for rum, sugar and bananas.

"We have agreed to forego any aspirations by way of the sugar protocol," said Mr Conde. "We do not export rum, and bananas are produced for local consumption."

The region has accepted that these guarantees are being given in good faith, said one senior trade official. "But the question we are all asking ourselves is: if they are not interested in any of these areas, why is there such an effort to get in? Many governments in the region accept the Dominicans' undertakings, but they are worried that internal economic and political changes could force the country to abandon this guarantee."

Caribbean and other ACP states have accepted that there is no likelihood thet the Dominican Republic's accession to the Lomé Convention would open the door to a flood of new members from Latin and Central America. "One of the conditions on which our agreement will be based is that the door will be closed in that part of the world," said Mr Carrington. "It has to be understood that it will not be the beginning of anything, but the end. On this point there is no argument, everyone agrees."

The admission of Haiti and the Dominican Republic would triple the population of the Caribbean part of the ACP group, and many in the region fear that there may not be a linked increase in financial assistance from the EC. But strong opposition to the application could cost the region support in important areas – such as continued protection for bananas – from countries such as Spain, which backs the Dominican Republic's membership.

Consequently, several Caribbean governments are coming to the conclusion that it may be more prudent in the longer term to seek protection for their for vital products such as rum, sugar and bananas, rather than attempt to shut out the Dominican Republic.

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OVERSEAS NEWS

Egypt may buy 8 UK submarines

By Tony Walker in Cairo

EGYPT is in the final stages of negotiating the purchase of two Oberon class submarines from private interests in the UK as part of an overall plan to modernise its fleet, according to defence officials in Cairo.

The sale, including extensive refit, could be wortb up to $75m. Egypt is thought likely to use American defence aid grants to help fund the refit.

Egyptian plans call for the purchase of up to eight Oberon submarines within the next ten years as these craft come on the market. The Royal Navy is gradually mothballing its fleet of Oberons and offering them for private tender.

Egypt, which has tha largest submarine fleet in the Arab world, is balieved to have decided to phase out some of its antiquated and noisy Soviet and Chinese supplied Whiskey and Romeo class vessels.

The country's large foreign debt means that limited funds are available for new defence equipment and Cairo is understood to be offering barter arrangements for the submarine purchases. Among the commodities it is believed willing to trade are cotton and aluminium.

Tbe Oberon submarines hava been a highly reliable amd quiet vehicle for the Royal Navy over the past 25 years. They are being phased out to make way for the new Upholder class.

Egypt's purchases of defence equipment have slowed in recent years, partly because of the country's economic crisis. But the military clearly attaches importance to preserving Egypt's regional advantage in submarine warfare capabilities.

Meanwhile, Israel is reported to be reconsidering its decision not to go ahead with the purchase of two diesel-powered submarines from West Germany.

Chadli: central role

Hostage crisis tests Algerian mediators' skill

By Victor Mallet

FEW people were surprised to find Algeria immersed in the tortuous negotiations over the weekend aimed at resolving the Middle East hostage crisis.

Ever since Algeria mediated between Iran and the US to secure the release of 52 US diplomatic bostages from Tehran in 1981, the country has earned a reputation for skilful diplomacy in a region prone to extremism and violence.

Algeria's role as go-between has been shaped both by its revolutionary history and the outstanding quality of its diplomatic troubleshooters.

After the vicious war which culminated in independence from France in 1962, Algeria joined the ranks of the radical Arab states and was accused of sheltering and supporting terrorists. It was friendly with Iran, Libya and Syria, and with Palestinian hardliners.

Under President Chadli Bendjedid for the past decade, Algeria has broadened its horizons by reaching out to moderate Arab states, Europe and the US – but without losing its standing among its old revolutionary allies.

The breadth of Algeria's contacts has been complemented by the astuteness and courage of its negotiators. One of the most prominent is Mr el-Hadi Khadiri, the minister wbo helped resolva last year's hijack of a Kuwaiti airliner and contributed to release of Frencb hostages in Lebanon. He mediated over the hijack of a TWA aircraft in 1985 and over US embassy hostages in Tehran four years earlier.

In 1982 Algeria lost some of its finest negotiators when an aircraft carrying Mr Mohammed Benyahia, the Foreign Minister, was shot down between Baghdad and Tehran on a sbuttle mission aimed at ending the Gulf war.

More recently another Algerian, Mr Lakhdar Ibrahimi, a former ambassador to Britain, has tried repeatedly to bring peace to Lebanon as one of the Assistant Secretaries General of the Arab League.

In Beirut last week, it was the turn of Mr al-Khaled al-Hasnawi, the Algerian ambassador to Lebanon. Among those he met as Algeria mediated in the hostage dispute were leaders of Hizbollah, the Iranian-backed organisation thought to be behind most of the kidnappings of Westerners.

One group linked to Hizbollah announced the hanging of US hostage Lt Col William Higgins last week. Another group threatened to kill Mr Josepb Cicippio, an American accountant, in retaliation for Israel's kidnapping of Sbeikh Abdul Karim Obeid, a Hizbollab leader in southern Lebanon. The threat has now been suspended.

"I pleaded with them (Hizbollah) to prevent the execution of Cicippio," Mr al-Hasnawi said. "I asked them to be patient and exert self-control and not to take drastic measures."

Mr al-Hasnawi - wbo as ambassador to Knwait was involved in the talks over last year's hijacking of a Kuwaiti Boeing 747 - said Algeria had responded to a request from President George Busb last week and had sent a team of negotiators to talk to the kidnappers. "The hostage issue has started to unfold," he told Reuters on Friday.

Another envoy, Mr Marrack Goulding of the United Nations, who has been in Beirut to ascertain the fate of Col Higgins, paid tribute to the efforts of Algeria.

Bush wins backing from Americans for handling of affair

By Peter Riddell, US Editor in Washington

PRESIDENT George Bush has so far been given general support by the US public and politicians for his handling of the Lebanon hostage affair, though there is widespread pressure for tougher action.

A poll conducted last Wednesday and Thursday for the Washington Post and ABC News shows that 47 per cent approved of Mr Bush's handling of the situation and 35 per cent disapproved.

However, the poll, which was mainly taken before the freezing of the execution threat against Mr Joseph Cicippio, indicates that 51 per cent of the sample believed that Mr Bush's reaction had not been tough enough. Around 35 per cent believed his conduct had been about right.

These findings tie in with the views of many Congressmen, including Democratic leaders, whose public comments have generally been supportive of the president, in part because they have been kept fully informed by him.

Yesterday both Senator George Mitchell, the Democratic Majority leader, and Senator Robert Dole, the Republican Minority leader, backed Mr Bush's stand and said the US should be prepared to take military action if further American hostages were killed. Senator Mitchell stressed that no course of action was risk-free and hoped that, in addition to Iran, more emphasis would be given to the role of Syria in Lebanon.

Senator David Boren, the Democratic chairman of the Senate Intelligence committee, said that Mr Bush had struck "exactly the right balance between using diplomatic channels and making it clear that his options are open. He's moved some military forces into the region. He's obviously preparing himself physically to take other action."

Nevertheless, there is a considerable undercurrent of frustration both specifically about the constraints on US intelligence in pinpointing the hostage-taking groups and generally over the impotence of a super-power in such a situation.

While there has been some easing of tension in the past few days, calls for military action against both the hostage-taking groups and its Iranian sponsors have not gone away.

A number of conservative Republicans have expressed concern that the administration's response over the past week has provided no penalty to the hostage-takers from seizing further Americans even if those currently in captivity are released.

Egyptian strikers bear the brunt of singleminded Cairo

Tony Walker on why IMF talks 'must not' be endangered

SWIFT and punitive action taken last week by the security forces against strikers at Egypt's Soviet-built Helwan Iron and Steel works was a sign of the government's determination to crack down hard on any hint of worker unrest, pending conclusion of delicate IMF negotiations.

According to those present, the security forces used tactics that would not have been out of place on the battlefield in their efforts to break-up a "sit-in" strike that was disrupting output at the huge complex that employs some 26,000 workers.

Mubarak: battered economy

One worker was killed by gunfire - he was reported in the official press to have died of a heart attack - and 15 others injured in the melee that followed the police intervention. Armoured vehicles and tear gas were used in the raid on the complex 30km south of Cairo. It was the worst case of industrial violence since President Hosni Mubarak came to power in 1981.

Harsh tactics

Tha tactics employed were characteristic of the government's approach to any hint of civil disobedience since the appointment in 1986 of the tough Major General Zaki Badr as Interior Minister. A notable target of his attentions has been Moslem fundamentalists, thousands of whom have been arrested.

The government is particularly sensitive now to any sign of civil disobedience as Egypt grapples with severe economic problems, including rising prices, unemployment and sbortages of soma commodities. The broad left represented by the Tugammn party is already agitating against an IMF accord which, it claims, will further depress living standards.

Mr Rifaat el Said, Secretary General of the Tugammu said yesterday that because of worsening economic conditions and the impact on worker's wellbeing they "can't do anything but strike." He said that the relatively free rein allowed to the opposition press in Egypt "gives you the right to howl, but this doesn't achieve anything."

The government, through the official press, has sought to portray the Helwan strike as a localised disturbance caused by communist and Moslem extremist agitators among a minority of workers. It says the immediate cause was the suspension of two worker representatives from the worker-management board in a dispute over the distribution of bonuses.

Mr el Said insisted, however, that the Helwan strike was symptomatic of a widespread disquiet in the workforce over falling living standards. He predicted there would be other disturbances.

The authorities have detained a number of workers, and are pressing chargea against 82 of them. The workers are accused of damaging property, resisting arrest and "abstaining from work." The government claims that the strike cost tha company E£m($2.3m) in property damage and lost production.

Under Egypt's emergency law, in force since the assassination of President Anwar Sadat in 1981, strikes are barred. But this has not prevented sporadic industrial unrest in the textile sector, Egypt's biggest employer of labour.

Electoral failure

Mr el Said said that in spite of the lack of electoral success of the broad left - the Tugammu party failed to win a seat at the last People's Assembly election in 1987 - there was no interest in Egypt at this stage in establishing an independent trade union body to replace the present government-dominated Egyptian Federation of Trades Unions.

He blamed the left's lack of electoral success on rigged ballots. He said the organisation was concentrating its efforts on strengthening its position in union organisations and was achieving success.

Egypt'a negotiations with the IMF are at an advanced stage. A letter of intent is expected to be signed this month, opening the way for a second Paris Club rescheduling of some $10bn of official debt. The IMF is asking for further reductions in subsidies, and interest and exchange rate reform.

OVERSEAS NEWS

Mujahideen chief puts forward plan for Kabul coup

By Christina Lamb in Peshawar

GULBUDDIN Hekmatyar, the most extreme of the seven Afghan resistance leaders, has proposed collaboration with senior Afghan army officers in a plan to replace the Soviet-backed regime of President Najibullah with a Revolutionary Council of commanders from around Kabul.

This is being seen as a direct challenge to Hekmatyar's resistance colleagues. They have been demanding his suspension from the US-backed interim government, after a recent incident in which one of his commanders reportedly killed 30 guerrillas from another party.

Hekmatyar, Foreign Minister in the interim government, followed his remarks by organising a rally to demonstrate his support, bringing in busloads of supporters. More than 20,000 attended the meeting, at which Hekmatyar accused the West of a conspiracy against his party, Hezbi Islami.

His accusations come amid rumours that the US is considering dropping Hekmatyar, who has been receiving the lion's share of the weapons it supplies to the resistance. Other resistance leaders have rejected his coup suggestion, pointing out that the senior Afghan army officers Hekmatyar refers to as "disillusioned with Najib", are all members of a hard-line faction that would never agree to hand over power to the Mujahideen.

Hekmatyar has been under fire from other resistance parties since allegations that he had arranged an ambush last month in which 30 Mujahideen were slaughtered.

● Mr Eduard Shevardnadze, Soviet Foreign Minister, was greeted by a stream of resistance rockets when he arrived in Kabul yesterday for talks with leaders of the Moscow-backed government there, Reuter reports.

Mr Shevardnadze, who is likely to leave Kabul today, is expected to brief the regime on talks between the US and Soviet officials last week that focused on the Afghan issue.

UN team to monitor Cambodia withdrawal

A UN team arrived in Bangkok yesterday on its way to Cambodia to determine how to set up an international body to monitor the Vietnamese troop withdrawal that is a key to a proposed solution to the Cambodian problem, AP reports from Bangkok.

The 15-member team is to fly to Cambodia today, and return after a week to hold talks with Thai authorities and visit the Thai-Cambodian border, according to its leader, Lt-Gen. Martin Vadset of Norway. The team was sent by the just-completed Paris conference on Cambodia, and will report back later this month.

Vietnam, which invaded Cambodia nearly 11 years ago and toppled the Khmer Rouge regime, said it will withdraw all its 26,000 troops by late September. Lt-Gen Vadset said "all factions and neighbouring countries had been very forthcoming in giving help to the delegation, so we have no doubt we will be able to do what we like".

The team includes officials from Norway, Iran, Malaysia, India, Poland, and Britain.

Dalai Lama's reconciliation hopes recede

Exchanges have dried up since the Tiananmen massacre, Peter Ellingsen reports

THE possibility of a reconciliation between Peking and Tibet's exiled leader, the Dalai Lama, has receded following the revival of conservative policies in China and the triumph of orthodox, hardline figures over reformers in the Chinese leadership.

With a purge of liberals continuing in the top ranks of the Communist Party, Peking has still to respond to an offer by the Dalai Lama to send a delegation to Hong Kong to initiate peace negotiations.

The Dalai Lama had wanted to meet on April 19, which, inconveniently for the Chinese leadership, coincided with Peking students taking to the streets of the capital for pro-democracy demonstrations.

China failed to respond to that offer, and there have been no official exchanges between the two groups since the Chinese Government ordered the army to crush democracy protests by storming Tiananmen Square on June 3.

China this week, however, again offered to meet the Dalai Lama, but only on its own terms – with no recognition of his government-in-exile and no suggestion that Tibet has any rights to independence.

The Tibetan capital, Lhasa, like Peking, remains under martial law, and Mr Teshi Wangdi, the Dalai Lama's foreign affairs spokesman, believes the Chinese military will have to withdraw before any real progress can be made on ending the 30-year stalemate with the Dalai, whom Tibetans regard as a god-king.

The prospect of further pro-independence protests, which have taken place intermittently since late 1987, means there is little chance the presence of the People's Liberation Army will be scaled down.

According to Mr Wangdi, talks are now "deadlocked" as a result of Peking's "unhelpful" attitude toward the Dalai Lama's willingness to start talks.

"Given their response to the reasonable demands of their own people, we cannot expect a positive response to our entreaties," he said.

Peking's position has been that the Dalai Lama, who fled Tibet with about 100,000 followers after an uprising in 1959, is welcome to return, providing he renounces claims to Tibetan sovereignty.

The Dalai previously suggested a Hong Kong-like arrangement for the region, with a Tibetan government handling domestic policies and Peking retaining responsibility for foreign affairs.

Ten Tibetans have been jailed for rioting, destruction of property and "counter-revolutionary" activities during anti-Chinese protests, Xinhua, the state-run news agency reported yesterday.

The sentences were for crimes, including arson, looting, and "shouting revolutionary slogans", which were allegedly committed during pro-independence protests in March, when at least 16 people were killed. The Xinhua report was one of the few official accounts of the fate of the hundreds of Tibetans believed arrested since the protests.

Peking rejected the proposal and insists Tibet is "an inalienable part" of China, while many Tibetans argue that their country has been occupied forcefully.

In an indication of the leadership's rigid attitude to Tibet, Mr Ngapoi Jigme, vice-chairman of the standing committee of China's National Peoples' Congress, this week emphasised the central role of ideology in Tibet.

The Dalai Lama: China this week offered to meet him – but only on its own terms

"Only the Communist party can make Tibetans masters of their land and only socialism can offer bright prospects for the region," he told the Fifth Tibetan Peoples' Congress in Lhasa.

Mr Ngapoi said the only choice open to the Dalai Lama was to conduct "sincere negotiations" with Peking "in order to satisfy the religious wishes of the Tibetan people.

"There is no way out for the few separatists to advocate independence for Tibet and go on stirring up riots," he said.

The Dalai Lama should endeavour to establish "good relations" with Peking, without mentioning the offer to meet in Hong Kong, Mr Ngapoi added.

Mr Ngapoi told the People's Congress meeting that the Chinese Communist Party was attempting to draw up new policies which would "better suit (Tibet's) characteristics of national autonomy."

He insisted that Peking's "liberation" of Tibet 40 years ago had unquestionably benefited the region.

In spite of the fact that the Chinese claim that a small number of "splittists" aided and abetted by "certain foreign powers" have been fermenting discontent in the mountain region, rule by the Chinese is unpopular in Tibet.

Peking enforced martial law after Tibetan monks and others staged an anti-Chinese demonstration in the Tibetan capital Lhasa in March this year.

The demonstration was the latest in a string of protests that have been harshly put down by Chinese troops.

The anti-apartheid protesters return

This time, the approach will be different, Patti Waldmeir writes

DURING the three years of South Africa's state of emergency, the country's anti-apartheid opposition has grown unaccustomed to success.

So when a handful of white hospitals last week accepted black patients for treatment following a protest organised by anti-apartheid groups, the protest leaders could scarcely contain their elation. Hospitals were only the beginning; apartheid would be challenged in every area of South African life, they said, promising the campaign would be "long and intense".

Plans for the future course of the civil disobedience campaign appear to be at an early stage of preparation. But it is clear that the campaign signals the return of anti-apartheid groups to the arena of protest politics, which they had largely vacated following the imposition of a state of emergency in June 1986. To judge from the first event staged so far, the approach to mass action will be radically different from that adopted prior to the sobering experiences of the past three years.

Representatives of the so-called "Mass Democratic Movement" – the amorphous body of opposition groups which is organising the current protest – concede that the emergency has left much of the movement crippled and dispirited. "Our leaders were detained, and as new leaders emerged, they were detained in turn. Two, three, four layers of leadership were removed, and organisation was crushed as a result," says an MDM spokesman.

This led the movement to reassess its approach to protest. Representatives of a wide range of groups allied to the MDM agree that the strategy of "ungovernability" pursued prior to the state of emergency – which involved spontaneous "mass mobilisation" often leading to violence – had failed in the face of overwhelming force from the state. A more organised, focused and peaceful approach was to replace the chaos of the 1984-86 disturbances. It was to appeal to a wider constituency, both internally and internationally.

The first evidence of a new approach came in January, when the movement organised hunger strikes by hundreds of black detainees. Faced with the international consequences of the deaths of prisoners detained without trial or charge, Pretoria surprised the movement by releasing many detainees. Of the 30,000 people detained during the emergency, only a small number now remain in jail.

The current civil disobedience campaign is being masterminded largely by exactly these released detainees. Many continue to experience severe restriction of their activities – they must report to police, several times daily in some cases, and are confined to their homes during hours of darkness.

In such a climate, co-ordinating opposition activity is difficult. Leaders may have been released, but many of the organisations they headed have been banned or restricted, or otherwise weakened by the state of emergency.

South African police fired tear gas to disperse peaceful mourners after a funeral near Cape Town on Saturday, Patti Waldmeir writes. Thousands had gathered to mark the deaths of two black activists killed in a bomb blast, in defiance of police restrictions on the funeral.

It was one of the largest such gatherings since the imposition of a state of emergency in 1986. Later, tear gas was also used against 50 people attempting to visit South Africa's oldest imprisoned activist, Oscar Mpetha, for his 80th birthday.

Activists speak of building mass organisations to direct the course of protest, beginning at the grassroots with street committees which had had a fledgling existence in some areas before the emergency. But the MDM itself could scarcely be less tightly organised: and with a large number of people speaking in its name at any one time, confusion over its intentions and its policies often arises.

At the core of the MDM, though, are the trades unions – by far the best organised of the opposition groupings, and the least affected by emergency regulations. The burden of ensuring that the current civil disobedience campaign is effective and peaceful must rest largely on the unions, which successfully organised a three-day strike last year to protest at changes to South Africa's labour laws. Union leaders meet later this month to consider another general strike to coincide with general elections involving whites, Indians and coloureds on September 6.

The powerful National Union of Mineworkers has already said it is extending the defiance campaign to segregated facilities at the mines, and MDM leaders say segregated buses, trains, and possibly schools could also be targeted.

But they recognise that the degree of restraint shown so far by Pretoria cannot be counted on to continue. Last week's hospitals campaign met no resistance from the authorities, despite continued threats of a tough response from Mr Adriaan Vlok, Law and Order Minister.

The desire to avoid damaging South Africa's international image no doubt played a part in the decision to exercise restraint, but as election day approaches, the ruling National Party may well wish to demonstrate its credentials on security before a white electorate which is terrified by black protest. Indeed, Saturday's use of tear gas in the Western Cape could prove an ominous warning: the state of emergency has been used to crush opposition in the past, and no one is forgetting that the current campaign could also prove vulnerable.

Ministers meet as row over S Africa sports tours grows

By Chris Sherwell in Sydney

MOUNTING controversy over proposed cricket and rugby tours of South Africa has lent added importance to a meeting of eight Commonwealth Foreign Ministers in Canberra to discuss intensified sanctions against the Pretoria government.

The ministers' three-day meeting gets under way today, and comes ahead of the Commonwealth heads of government gathering in Kuala Lumpur in October. Known as the Committee of Foreign Ministers, the group was set up at the last summit in Vancouver in 1987, and has so far met three times.

Yesterday both Mr Bob Hawke, Australia's Prime Minister, and Sir Sridath Ramphal, Commonwealth Secretary-General, spoke out against the proposed tours and warned that they placed the Commonwealth Games, scheduled for Auckland next year, in jeopardy.

News of a possible tour by a world invitation rugby union XV provoked an immediate storm in Australia because several local players might be involved. Some, interviewed on their return from the annual Bledisloe Cup match between the Wallabies and the All Blacks in New Zealand, indicated their preparedness to visit South Africa.

The development escalated the controversy over plans for English cricket tours of South Africa during the next two northern winters. The plans, revealed last week, were greeted with shock from the English cricket establishment and outrage from the anti-apartheid lobby.

Angry demands for a response could overshadow the Canberra meeting's more serious debate on financial and trade sanctions against South Africa. The ministers are due to consider a specially-commissioned report said to urge a full embargo on trade for five years.

They will also receive a report on South Africa's destabilisation of its neighbours, and consider how to strengthen the existing arms embargo. The financial sanctions imposed by the world's commercial banks will receive separate endorsement through the launch of a book based on an official Australian report documenting their success.

The committee, a direct descendant of the so-called Eminent Persons Group, comprises the foreign ministers of Australia, Canada, Guyana, India, Nigeria, Tanzania, Zambia and Zimbabwe. Malaysia's foreign minister is attending as an observer. Britain is not a member.

NY brings a queen down to earth

The city is gripped by the Helmsley 'show trial', writes Janet Bush

A TATTY old man wandered confused through the corridors of the Federal District Court in Manhattan with the sole hope of retribution on his mind. "Can you tell me where the Helmsley trial is?" he asked.

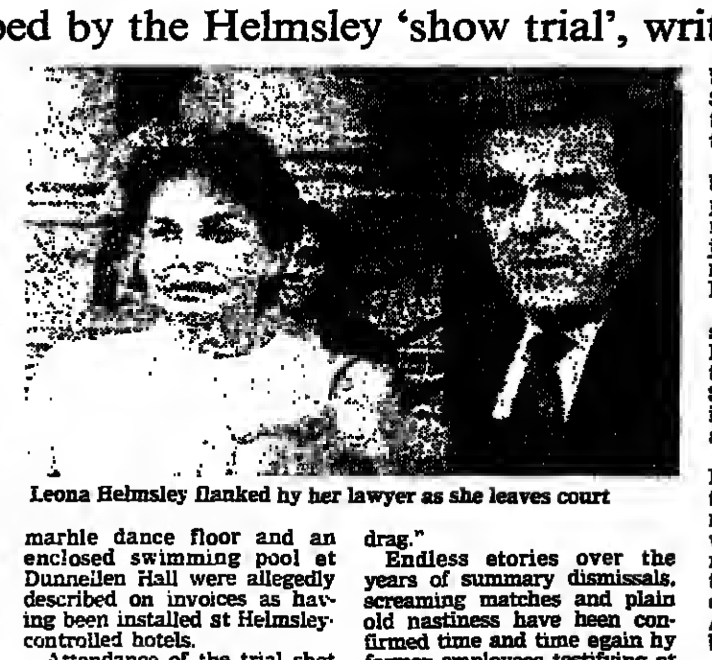
He is one of hundreds of "little people" who have filled the public seats over the last five weeks, greedily drinking in the prosecution testimony in the trial of Mrs Leona Helmsley, the real estate queen of New York, on tax evasion charges.

Her 80-year-old husband, Harry, titular head of the $5bn real estate empire, was declared mentally incompetent to stand trial, leaving his wife, defiant in designer clothes but obviously strained, to the hideous ordeal of facing the public for whom she is reported to have had so much contempt.

Harry Helmsley has long been considered New York's wealthiest landowner. Among the buildings owned by his real estate partnerships are the Empire State Building and the Helmsley Building over Grand Central Station. Helmsley-Spear, the Helmsleys' main operating company, is one of New York's biggest building managers and real estate and insurance brokers. Its annual revenues are $1.1bn.

The Helmsley Hotel group owns six luxury hotels in New York, including the Helmsley Palace, the Carlton House and the Helmsley Park Lane. The separate Harley Hotel division runs 17 budget hotels and motor inns in ten states.

The main charge is evading about $1m of Federal taxes by disguising as business expenses some $4m worth of renovations at the Helmsleys' personal estate in Connecticut. Contractors working on the estate were allegedly forced by Mrs Helmsley to send their bills to Helmsley Hotels instead. For instance, a new



Leona Helmsley flanked by her lawyer as she leaves court

marble dance floor and an enclosed swimming pool at Dunnellen Hall were allegedly described on invoices as having been installed at Helmsley-controlled hotels.

Attendance of the trial shot up after the former housekeeper of the Helmsley's 28-room Connecticut mansion Dunnellen Hall told the jury that Mrs Helmsley had once said: "We don't pay taxes. The little people pay taxes."

Mrs Helmsley, a 69-year-old hatter's daughter from Brooklyn, has never attracted much affection but the vultures were out in force at Federal Court last week, from the vacationing family sporting bermuda shorts and rucksacks to the quietly amused West Indian in the back row.

The little people can't get enough of this show trial. They pore over every detail of her dress and mutter about what she looks like in the flesh. One old woman whispered to her neighbour: "Her face is so red she must drink." Her friend replied: "No, it's the facelifts."

More cruel was the young man who giggled to his neighbour: "She looks like Liberace come back from the dead in drag."

Endless stories over the years of summary dismissals, screaming matches and plain old nastiness have been confirmed time and time again by former employees testifying at the trial.

One man told how he was fired while Mrs Helmsley was being fitted for a dress. Even Mr Gerald Feffer, her suave defence lawyer, called Mrs Helmsley a "tough bitch" in his opening remarks.

In what pundits reckon could turn out to be an inspired defence, Mr Feffer told the jury: "The prosecutors are going to get you to try and hate Mrs Helmsley but you don't put people in jail for being unpopular."

How are the mighty fallen. In the old days, a smiling Leona featured in advertisements for the Madison Avenue Helmsley Palace Hotel with the slogan "The only palace in the world where the Queen stands guard."

In court last week, jurors and audience alike smirked when it was revealed that Mrs Helmsley once spent $3,400 on handbags from La Jeunesse in a single month but ordered brassieres from Macy's for $10.12 and $14.12. She returned the $14.12 bras, the court heard to great hilarity.

Charged with evading taxes by getting the hotel business to pay for a cornucopia of luxuries for her $11m mansion, the jury has been treated to ever more titillating insights into her expensive taste.

"Leona meets buffalo bill," screamed the New York Daily News when the court heard that Mrs Helmsley had charged $210,000 for an exquisite 15-inch jade buffalo to a business account at one of her hotels.

Mr Martin Goldstein, Mrs Helmsley's former assistant, testified last week that her many mail order purchases were paid for by the hotel business. She would often browse through catalogues from high class stores such as Saks Fifth Avenue, Royal Silk and Elizabeth Arden.

"What? No Korvettes?" sneered Mr James DeVita, the businesslike prosecuting attorney, referring to the now defunct discount store and drawing a laugh around the court room.

After five weeks of what has been highly effective prosecution testimony, some of it from former employees who took key documents with them when they left Helmsley employ, the conventional wisdom is that Mrs Helmsley has already been buried.

One look at the jury suggests that even Mr Feffer's considerable skills may not be able to work a miracle.

Of the 12 men and women, one is a baggage handler, one an electrician, one sports a pony tail, eight are black and none looks as if he or she would ever be able to afford to pay $281 for a belt. They seem to get on ominously well, casting each other knowing looks and chuckling at each detail of Mrs Helmsley's lavish lifestyle.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1985=100)

	July '89	June '89	May '89	July '88	% change over previous year
W. Germany	105.2	105.4	105.2	102.1	3.0
Belgium	110.0	109.7	109.5	106.8	3.0
Italy	124.4	124.1	123.5	116.3	7.0

	June '89	May '89	Apr. '89	June '88	% change over previous year
Netherlands	100.9	101.0	101.0	99.9	1.0
France	115.4	115.3	114.9	111.4	3.6
UK	128.5	128.1	125.3	118.6	8.3
USA	117.6	117.4	116.7	111.8	5.2
Japan	104.2	104.3	103.7	101.2	3.0

Source: (except US) Eurostat

In brief

Unleaded petrol sales increase by nearly 19%

UNLEADED petrol sales have risen by nearly 19 per cent in the UK this year – the greatest growth of any European country.

They now account for 22.9 per cent of the home market. Mrs Virginia Bottomley, the junior eovironment minister, said: "This ie the biggest increase in the market share taken by unleaded in any country in Europe in 1989."

Docklands plan

A FURTHER 3,000 homes, most of them flats, could be built in London's Docklands if new plans for part of the Royal Docks are approved.

The master plao for the south side of the Royal Victoria Dock goes out to interested parties this week.

Downing St barrier

A NEW anti-terrorist barrier is being installed in Downing Street, the UK prime minister's London home, and should be installed this month.

The new harrier – a "Blocker" – will be made of steel and will be designed to spring up if a vehicle attempts to hurst through the existing gates.

Workers' treatment

UK COMPANIES are more likely to harmonise the treatment of white and blue collar workers in the areas of holidays, redundancy pay and pensions rather than pay systems, grading structures and hours of work, according to a survey published today in Industrial Relations Review.

Campaigner dies

A peace campaigner was killed in a road accideot outside Greenham Common, the US air force base in England where cruise missiles were sited until last week.

Electricity industry calls on Government to underwrite AGR risks

Pressure increases on N-plant sale

By Max Wilkinson, Resources Editor

THE UK Government is facing renewed pressure from the electricity industry to take the main financial responsibility for Britain's newer nuclear plant – the troubled Advance Gas-cooled Reactors.

The industry wants the Government to cover the financial risk of the AGRs, sited at Dungeness B in Scotland, Heysham 1 in north west England and Hartlepool in north east England, which have a poor reputation for output and may deter investment in the power supply industry when it is privatised.

It is now accepted the AGRs at Dungeness B, Heysham 1 and Hartlepool could only produce about 70 per cent of their design output even at maximum efficiency.

Last year, however, the output of all three of these stations was less than the original theoretical capacity of only one of them. Some observers question whether the cost of keeping these reactors "on the road" will allow them to run at an operational profit.

Pressure on the Government has increased following the Cabinet's decision, announced on the day of the ministerial reshuffle last month, to reverse its plan to sell the older Magnox reactors. Since most of the Magnox stations will be closed in the next decade, it was argued that the private sector could not be expected to take on the financial risks of decommissioning.

Mr Cecil Parkinson, the former energy secretary decided just before he was moved to the transport department, that with longer productive lives ahead of them the AGRs represented an acceptable private sector risk.

The AGRs are to to be transferred to National Power, the larger of two generating companies created for the privatisation. National Power also plans to build four pressurised water reactors.

The company is now lobbying hard to be given a management contract to run the Magnox plant for the rest of their lives, which would provide the company with a safe income, while the Government would carry all the risk. At the same time the company is trying to negotiate a series of contracts which will push most of the commercial risks associated with the AGRs onto the taxpayer.

Bankers advising on the sale also fear investors would demand a steep discount in the price of National Power's shares if they thought that they were exposed to significant nuclear risks.

Mr John Wakeham, the new energy secretary, now faces the difficulty that if the risks of poor nuclear performance are removed from National Power, he will be under pressure from the rest of the industry to limit the rewards available from better than predicted performance.

If most of the risks and rewards are taken away, however, he will find it difficult to argue that the AGRs will be better off in the private sector.

Risks and uncertainties surround the AGRs because British Nuclear Fuels (BNFL) Ltd, the state-owned reprocessing company, estimates reprocessing costs from the plants will rise rapidly. Under existing contracts, BNFL could continue to raise its prices to reflect higher costs. If National Power could negotiate a fixed price contract, however, the Government would have to absorb unexpected future price increases.

Investors may be deterred by uncertainties over future decommissioning costs. National Power wants the proposed nuclear levy structured so that decommissioning costs can be passed on to consumers in advance.

There are also doubts about whether some of the earlier plant can be made to work properly, and what the cost of keeping them going might be.

The Central Electricity Generating Board, which currently operates the AGRs, said the performance of the two newest AGRs, at Heysham 2 and Torness in Scotland is looking good in their first year of operation.

It is extremely difficult for the Government to predict whether they will prove reliable in the long run; but an estimate must be made so that they can be valued for the sale and quite small improvements in performance could make a significant difference to National Power's profits.

One proposal being put to Mr Wakeham is that contracts for the output of the AGRs should ensure that the benefits of better than predicted output should be passed to the 10 new distribution companies in the form of low priced power. The industry's regulator would ensure that this was eventually reflected in consumers' bills.

Todd may face angry scenes in Liverpool

By Fiona Thompson, Labour Staff

MR RON Todd, general secretary of the Transport and General Workers' Union – Britain's largest union – may face angry scenes in Liverpool this morning when he arrives for talks with leaders of what had become a divided docks workforce.

Mr Todd is due to meet shop stewards at 11am, and was yesterday not ruling out the possibility of addressing a mass meeting of dockers. He is likely to urge a return to work, in spite of the dockers' vote on Friday to stay out on strike.

The Mersey Docks and Harbour Company said it expected almost three-quarters of the 950 Liverpool dockers employed to return to work today, regardless of the ballot.

The company said that by 5pm on Friday 400 dockers had signed and returned new contracts of employment which had been offered to them individually while the dock strike was still on. These men were expected back at work today, the company said.

It also expected a further 289 men, who had applied for voluntary severance, to report back for work.

Mr Todd said he was meeting the shop stewards to outline the position of the union's executive council.

Last Tuesday it voted by 18 to 12 to end the three-week-long national dock strike and recommended an immediate return to work while calling on officials to pursue local agreements to replace the abolished National Dock Labour Scheme.

Mr Jimmy Nolan, the Liverpool shop stewards' leader, said yesterday that Mr Todd should support the decision of the workforce. He claimed only a handful of the dockers on Friday voted to return to work. Mr Todd said he thought there would be a lot of anger and disagreement among Liverpool dockers.

Banks risking debt on property loans

By Ralph Atkins, Economics Staff

BANKS may have become over-exposed in their lending to the UK property sector, according to a Lloyds Bank report published today.

Outstanding bank loans to the sector increased by £10bn or 60 per cent in the year ending May, says Mr Christopher Johnson, chief economic adviser at Lloyds. That was twice the rate of increase of total bank lending to UK residents.

The recent tendency for bank lending to outstrip property values suggests the gearing of property companies is deteriorating, Mr Johnson says. However, this is not evident in the net debt to properties ratio of the 45 largest property companies.

"An increasing amount of their debt is off-balance sheet, in some cases financing developments with a limited recourse to the company . . . there is an urgent need to tighten accounting standards so that the true position can be measured," says Mr Johnson.

Two years ago the Governor of the Bank of England warned that a careful watch was needed on property lending. The Lloyds Bank report says: "Even if the banks were not over-exposed to property two years ago, there is more of a case for saying that they are over-exposed today."

Mr Johnson says the rise in bank loans has been made "both necessary and possible" by increased property values. In 1987-88 property values were rising at a rate of 30 per cent a year but this had slowed to an annual 18 per cent in the three month period to May.

He says: "If the economy has a soft landing, the property market should be able to survive a set-back without too much trouble. If interest rates rise, and a recessioo occurs, then property values could fall for a time in some areas, with risks to new developments and to some bank loans."

Birch considers response to new Boots bid

By Andrew Hill

MR PHILIP Birch, chairman and managing director of Ward White, the UK retail group, is likely to come under growing pressure this week to produce alternatives to Friday's increased takeover bid from Boots, the UK retail chemist and pharmaceutical group.

The latest offer values Ward White, the do-it-yourself and car parts retailer at £900m ($1.49bn) in cash. Boots has set a deadline of August 22 on the bid and declared it final, assuming no other offers emerge.

Mr Birch was locked in discussions with Ward White's advisers yesterday, but refused to specify exactly what options were under consideration, or when any defensive proposals might be announced.

This is the last week in which Ward White can publish new financial information, so the group may content itself with producing a divisional breakdown of its interim profits.

The company has already forecast it will make £33m before tax in the six months to July 31.

Speculation about alternatives to the Boots offer centres on the possibility of a leveraged buy-out – which could be masterminded by a US bank such as Shearson Lehman or Bankers Trust – or a "white knight" counter-bid, which might come from Kingfisher, the former Woolworths group.

Mr Birch said yesterday: "We are working on those sorts of alternatives, as is our duty, but I don't think I can give any emphasis to any particular alternative at this stage.

"Time is of the essence and discussions are proceeding as we speak."

A buy-out would probably involve disposing of some of Ward White's operations. The group's subsidiaries include Halfords, the car parts and bicycle stores group, and Payless, the DIY chain.

Although Mr Birch is thought to prefer keeping the group together, he said yesterday he would not do so irrespective of the consequences.

"I'm a pragmatist. I have got to do what is right for shareholders and I can't just sit on the bridge saluting as the ship goes down," he said.

Boots launched its first bid for Ward White – valuing the company at £800m – at the beginning of July, prompting a sharp increase in the share price to well above the 400p offer. On Friday the shares closed just 6p higher than the new 445p-a-share offer. The hostile bid now includes a share alternative: one share in place of 300p in cash.

Major plans visit to reassure Hong Kong

By Michael Cassell, Political Correspondent

BRITAIN'S Foreign and Commonwealth Office last night confirmed Mr John Major, the Foreign Secretary, intends to visit Hong Kong for talks with politicians and community leaders. No date has been set, although it is likely to be towards the end of the year.

Newe of Mr Major's planned visit follows the recent return from Hong Kong of Sir Geoffrey Howe, his predecessor. Sir Geoffrey received a highly critical reception in the wake of Britain's refusal to grant right of abode to more than 3m British dependent territory passport holders before the Crown Colony is returned to China in 1997.

The visit by Mr Major, who faces a similar reception unless there are significant changes in the Government's position, was confirmed as Sir David Wilson, the Governor of Hong Kong, flew into London.

Sir David will today meet Mr Francis Maude, the new minister of state at the Foreign Office. The meeting will provids an opportunity for the governor to provide the latest assessment of the sitiuation in Hong Kong and for the two men to become acquainted.

Sir David, who will be on holiday in Britain for about a month, will also see Mr Major, whom he does not know. It is not expected they will meet this week.

On his arrival in London, Sir David said he would be telling Mr Major about problems and difficulties the Hong Kong community faced, and stressing measures people wanted to see in order to restore confidence.

There are no plans for Sir David to see Mrs Margaret Thatcher, the Prime Minister, hut a meeting before he returns cannot be ruled out.

Mr Major's intended visit was revealed in a weekend newspaper interview, in which he said the future of Hong Kong was "a matter of very high priority." He acknowledged that confidence in the colony had been shattered and repeated his recent assertions that the onus was on the Chinese Government to restore the situation.

He said a decision on the number of people from Hong Kong who would be able to settle in Britain required considsrable thought. However, nobody wanted to see a "vast exodus" which would destroy Hong Kong's own confidence in itself.

It is considsred highly unlikely there will be a significant change in the British Government's approach to the Hong Kong issue, in spite of Mr Major's appointment. Some Tory MPs are hopeful, however, that the new Foreign Secretary may prove more enthusiastic than Sir Geoffrey over proposals to secure an international solution to any resettlement programme which becomes necessary.

Mr Major met Qian Qichen, his Chinese counterpart, in Paris a week ago, in the first high-level official contact between the two countries since the crushing of the pro-democracy demonstrations in June. The two countries agreed to resume talks on the scheduled handover of the colony.

English tourism enjoys 60% rise in investment

By David Churchill, Leisure Industries Correspondent

INVESTMENT in England's tourist industry is enjoying strong growth, having risen by 60 per cent in the first six months of this year over the first half of last year.

It has reached £3.34bn according to figures released yesterday by the English Tourist Board.

The statistics are based on tourist projects either under construction or completed within the six months to the end of June.

They follow Government figures published last week showing that Britain is heading for a record year in tourism with the number of overseas visitors already up by 16 per cent in the first five months of this year compared with the same period last year.

Mr John East, chief executive of the English Tourist Board, said yesterday: "Success breeds success, borne out by last year's tourist boom and now with this huge increase in investment."

He added: "Sport, leisure and retail investment is vital to the continued growth of tourism, providing better facilities and attracting more visitors as a result."

Hotel construction accounted for more than a third of the total investment underway in the leisure sector in the first half of this year, the figures reveal.

Some 89 new hotels were under construction in this period, accounting for £676m of investment, with a further 108 either being refurbished or extended.

A total of 30 new hotels were completed in England during the first half of the year.

TUC unveils training plan

By Fiona Thompson, Labour Staff

BRITAIN neede urgsnt expansion of training in schools and workplaces and a more skilled workforce, according to the country's Trades Union Congress (TUC).

The TUC, which represents the country's largest labour unions, outlined proposals to radically reshape training in Britain over the next decade in the latest issue of its monthly magazine, TUC Bulletin.

The article previews a statement - Skills 2000 - which will be presented to the TUC's conference next month.

The skills shortage facing Britain is greater than at any time since the industrial revolution, the statement says. Seventy per cent of the current workforce left school at the minimum school leaving age and 70 per cent of them receive no systematic education or training.

International competition will grow enormously over the next decade as the Pacific Rim countries produce goods and services ever-faster and ever-cheaper. Skills are in greater demand with the increase in new technologies.

The TUC says the number of young people entering the labour market is falling fast but Britain has fallen behind its competitors because they have introduced more training.

The TUC highlights four weaknesses in existing training: poor distribution of facilities; inflexibility; an assumption that amateurs can excel as well as professionals; and failure by businesses to train.

The TUC proposes that a training charter should be established, setting ont the training infrastructure an enterprise would be expected to provide.

Sky races ahead of BSB in satellite TV stakes

By Raymond Snoddy

MR RUPERT MURDOCH's Sky Television appears to be winning the publicity battle against its satellite television rival British Satellite Broadcasting, which has had to delay its launch until next spring because of technical problems.

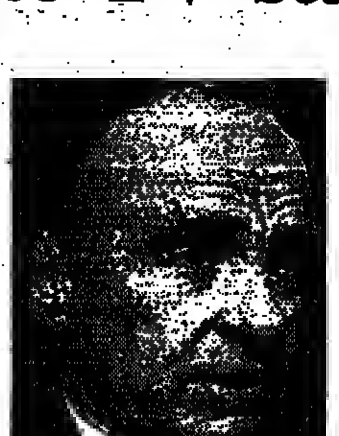
Forty per cent of those interested in joining the satellite television revolution say they will install an Astra receiver which can pick up the four Sky Television channels and other channels such as Mr Robert Maxwell's MTV and Screen Sport from WH Smith. Only 9 per cent say they will install BSB.

The potential good news for Sky Television, which launched its service in February, comes in the fifth monthly FT Satellite Monitor carried out by Kennington Research. The monitor tracks the sales of satellite equipment and consumer intentions.

Among the 4m households who say they will definitely or probably have satellite television, 25 per cent have not yet made up their minds on which of the two competing systems they will choose. A further 26 per cent say they do not know much about either system.

The findings reveal considerable indecision, caused as much by lack of knowledge and awareness as a rational postponement of choice until both incompatible systems are up and running.

Among those who have decided, Sky/Astra leads by four homes to every one intending to install BSB, a satellite service planned by a consortium in which Pearson, publishers of the Financial Times, is a founder shareholder.


Rupert Murdoch: appears to be winning battle

According to Mr John Clemens, managing director of Kennington Research: "The current slowness in installation is not the result of a large section of the market waiting for BSB to arrive, though the knowledge that there is an alternative has inevitably had a dampening effect on the market."

In July the FT Satellite Monitor estimated that the total number of homes in Britain receiving direct-to-home (DTH) satellite television rose to 127,000, up only 9,000 on June.

July is traditionally a month of low television viewing, a factor exaggerated this year by sustained hot weather.

The 127,000 total, which excludes those viewing satellite channels on cable television networks, is based on interviews with a nationally representative sample of more than 4,000 adults aged over 15.

July's survey revealed a total of just five newly acquired large dishes and 17 60-centimetre Astra dishes. Because of the small numbers, the margin of error in calculating the overall estimate is in the region of plus or minus 20,000 homes.

For the first time, however, those households saying they will definitely install satellite television passed the 1m mark, with about 3m saying they probably will. Among 15 to 44-year-olds the potential market has stabilised at around 26 per cent. Interest in older age groups continues to fall. Since April the percentage of interested 45 to 65-year-olds has fallen from 22.5 per cent to 15.5 per cent.

The most enthusiastic social group is the C2s of market research – skilled working-class households – steady at about 24 per cent.

Since April the percentage of AB professional and managerial households who will definitely or probably install satellite television has fallen from 23 per cent to 19 per cent.

● *The FT Satellite Monitor is available from Financial Times Market Research for £1.85.*

Welsh lead for group in telecoms licence bid

By Hugo Dixon

CITIBANK, the US commercial bank, and C Itoh, Japan's leading trading house, are joining a small Welsh electronics company to make a bid for one of Britain's new personal communications licences.

This group may also be joined by Olivetti, the Italian computer group.

They are the latest in an increasingly international list of companies vying for one of the licences which are designed to create a mass market for mobile communications.

In several ways, the consortium breaks new ground.

First, it is being led by Race Group, a privately-held Welsh manufacturer of printed circuit boards. The other consortia are being led by leading UK electronics groups such as the General Electric Company and Cable & Wireless.

The participation of C Itoh is the first firm involvement in the competition for personal communications licences by a Japanese company, although Sony has expressed interest.

No US commercial banks apart from Citibank have declared an interest in taking part in the bids, although several American telecommunications operators are involved.

Race is controlled by Mr Alfred Gooding. His eldest son, Mr Russell Gooding, said they thought one of the new licences should go to a regionally-based company.

C Itoh and Citibank already have close links with the Welsh company.

In May, the Japanese group took a 20 per cent stake in Race; and Citicorp Venture Capital, one of Citibank's sister companies, holds the remaining 24 per cent not owned by Gooding Investments, Mr Alfred Gooding's family concern.

An advantage of including Citibank in the consortium is that it operates one of the world's largest private telecommunications networks.

Mr Russell Gooding said Race was also looking for a further partner that had experience in public telecommunications.

No joke for funny tummy cases

Lisa Wood on latest moves to end the rise in food poisoning

THE "funny tummy" has traditionally been a feature of venturing across the English Channel. For most Britons, food poisoning in the home or local restaurant has not been a burning issue.

But as holiday Britons have been struggling home from a typhoid-hit Spanish resort, hundreds of people in the north-east and west of England have contracted food poisoning from contaminated cooked meats. Three have died.

For many consumers these latest outbreaks in the UK point to an epidemic of home-grown micro-organisms responsible for food-borne gastro-enteritis.


Sir Donald Acheson: revealed sharp rise in cases

Government figures partly back up this popular belief. Official figures show the total of "formally notified" plus "otherwise ascertained" cases of food poisoning have increased each year since 1982, with the exception of 1985.

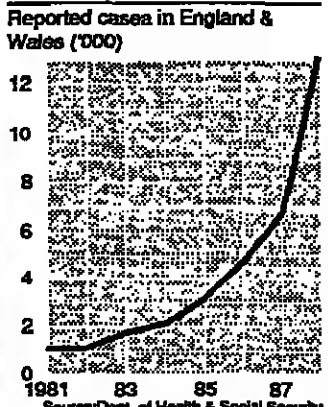
The provisional figure for 1988, according to Sir Donald Acheson, Chief Medical Officer, was 41,196 cases, almost three times the rate for 1982. Figures also show summer peaks with one of the worst outbreaks in Britain – at the Stanley Royd Hospital in Wakefield, where 19 people died in 1984 – occurring during a heat-wave.

However, while illness from organisms such as listeria – found recently in pâté and which can cause severe disorders for pregnant women, including death of the foetus – are on the increase, the most common source of food poisoning is from salmonella infections. Such micro-organisms, most commonly found in poultry, meat and dairy products, were the source of the food poisoning in the recent outbreaks in Wales and County Durham.

However, within the salmonella family there is a strain of bacteria called salmonella enteritidis - which is found mainly in poultry - which has been the real villain over the past few years. Government figures show a 13-fold increase in cases of food poisoning attributed to this source since 1981.

Salmonella enteritidis

Reported cases in England & Wales ('000)



Source: Dept. of Health & Social Security

Reasons for the increase in this strain of salmonella are many, and a source of fierce debate within the industry. Modern intensive methods of production are blamed by some critics for the current outbreak of contamination.

Last November Mrs Edwina Curry, then a junior health minister, remarked that "most" egg production was contaminated.

While Mrs Currie lost her job over her errant remark and egg sales plummeted, the controversy marked a watershed in both the awareness of the British public towards food contamination and government pronouncements over food poisoning generally.

A new code of hygiene practice for Britain's poultry producers was among the first official initiatives with the Government's white paper on food safety, published last week, the most recent development.

This proposal, criticised by many public health bodies as not going far enough, seeks to ensure the whole food chain is covered by legislative controls, though its impact will be greatest on food processors, wholesalers and retailers.

Mr David Statham, chairman of the policy and resources committee of the Institution of Environmental Health Officers whose members are responsible for policing food manufacturers and retailers, said: "A major problem for us has been outdated legislation."

Previous legislation, dating from the 19th century, does not address current eating habits, such as take-away foods, chilled ready-prepared foods and cold snacks, he said.

"If you wanted to operate a sandwich shop you have not even been required to have them stored under refrigeration." Similarly, he said, food handlers have not needed to be trained in food hygiene.

"Chefs," said Mr Statham, "may know how to make foods taste and look nice but they do not necessarily know how to make them safe to eat." Foods he said, were often not properly cooled, were inadequately re-heated or prepared too far in advance and then stored at dangerous temperatures.

The proposed new legislation, he said, made steps in the right direction, with some provision, for example, for improved training of food handlers.

But but he was disappointed, for example, that food stores and catering establishments would only have to be registered as a information-gathering exercise, rather than having to comply with certain standards before being registered.

Mr Statham also said the public – which has recently been inundated with government leaflets on food hygiene within the home – should also become more vigilant.

"The British are too reticent about complaining," said Mr Statham. "How many times have you heard people complaining when a butcher, for example picks up raw meat and then cuts cooked ham without washing his hands. It is an obvious source of cross-contamination and people should object or vote with their feet."

Murdoch's use of media attacked

By Raymond Snoddy

BRITISH Satellite Broadcasting yesterday called on the Government to reconsider its position on cross-media ownership, following a survey suggesting that Mr Rupert Murdoch's Sky Television was being advertised disproportionately in his five national newspapers.

A survey of satellite television advertising in national newspapers since last December found that Sky spent more than four times as much with News International newspapers than with other national titles.

Bartle Bogle Hegarty, BSB's advertising agency, said that Sky Television spent £4.64m at full-rate card prices, with News International titles, and only £1.07m with the rest. In July the two figures were £1.17m and £307,000, respectively.

BSB, a satellite venture in which Pearson, owner of the Financial Times, has a substantial stake, sees the figures as indication that Mr Murdoch may be abusing his position as an owner of both national newspapers and satellite television channels.

The Government has said that national newspapers will be able to own no more than 20 per cent of a commercial television venture.

Sky is, however, not included, because it is broadcast from a Luxembourg-owned satellite. BSB has been running a campaign to get Mr Murdoch's satellite channels included in cross-media ownership restrictions.

News International said yesterday that it looks forward to carrying advertisements for BSB in News International titles, which would be charged at the same rate as Sky Television has to pay.

Equities overvalued, says Phillips & Drew

By our Financial Staff

HIGH dealing activity and "short-termism" have persisted in some pension funds since the 1987 stock market crash, according to the UK's second largest pension fund managers, Phillips & Drew Fund Management, which manages portfolios worth £14bn for UK institutional clients.

Meanwhile the UK equity market has again become overvalued, say the firm's strategists, who correctly reduced their exposure to equities ahead of the 1987 crash.

Figures for activity have been calculated for a new edition of *Pension Fund Indicators*, PDFM's annual guide to investment perspective.

According to Mr Jim McCaughan, a director of the firm and editor of the book, complaints of low turnover by stockbrokers are not borne out by statistics, which show the average holding period for UK equities is between three and four years.

"Given that some funds are undeniably long-term in their approach, this suggests that short-termism may be creeping into some quarters of the industry," he comments. But PDFM's own turnover levels are normally below average.

The book highlights the excellent investment performance by equities over the long term, as well as the poor performance of gilt-edged and other fixed-income securities.

Over the past 25 years, the real return on UK equities, after allowing for inflation, has been 6 per cent, on cash 1.5 per cent and on gilts zero.

However, gilts have performed better over the past ten years, achieving a 6.6 per cent real return in this period, which is still only half the corresponding real return on equities.

PDFM considers the 25-year real returns on equities and cash are likely to be sustainable for the future over the long term, but the return on gilts is "very uncertain, being at risk from future inflation".

In the short term, however, PDFM believes the UK equity market has reached unrealistically high levels.

Anticipating a hard landing for the UK economy next year, the firm has reduced the UK equity exposure of client pension funds to close to the normal minimum of 50 per cent, and is putting money into index-linked gilts and foreign currency bonds.

Number of overseas students rises

By Joel Kibazo

THE NUMBER of overseas students studying full-time at British universities and polytechnics rose by nearly a fifth in the period from 1983 to 1987, according to figures from the Department of Education and Science.

The figures show that up to the end of 1987, there were more than 65,000 overseas students taking higher education courses in Britain.

Hong Kong, Malaysia and the United States continued to send the most higher-education students, while the number of students from the European Community nearly doubled in the 1980s to 11,500, with Greece, West Germany and France sending most students.

The number of students from China grew throughout the period, reaching 1,074 by the end of 1987.

Female students now account for one third of overseas students, compared with a quarter in 1980.

Business, administrative and social studies formed the most popular subject group, accounting for 26 per cent of all students, although engineering and technology followed closely, accounting for 24 per cent of all subjects studied by students from abroad.

First degree courses were the fastest growing sector, with over a third of the total taking these.

Overseas postgraduate numbers increased by a third over the period to 23,000.

In spite of the increase in overseas student numbers, the total still lags behind the peak year of 1978, when almost 70,000 overseas students studied in Britain.

Overseas student numbers dropped substantially after 1980 after a government decision to charge them the full cost of their courses. Numbers began to rise again after 1984.

However, the number of students coming to Britain for further education courses has continued to fall – from 30,000 in 1978 to just under 7,000 by the end of 1987.

Statistical Bulletin 11/89. Students from Abroad in Great Britain 1975 to 1987. DES, Elizabeth House, York Road, London SE1 7PH. Free.

Video link for lawyer makes legal history

By Raymond Hughes, Law Courts Correspondent

LEGAL and telecommunications history will be made today when the first video conference is held between a London barrister and his clients 200 miles away.

Mr Sean Overend will chair a conference with his clients and their solicitor, Mr John Goodman, of the Manchester firm Howarth Goodman, while they are in Chester by means of television monitors.

The system, which is cable-based and works through the British Telecom network, has been devised by LawLink, a video communications company.

Pensioners' income rises 23% in seven years

By Eric Short, Pensions Correspondent

THE AVERAGE net income of pensioners in the UK has risen by 23 per cent in real terms between 1979 and 1986, according to the latest Economic Progress report from the Treasury. That is faster than for the population as a whole.

The increase is attributed to two main features – the gains arising from private savings, and the benefits emerging from occupational pension plans and the State Earnings-Related Pension Scheme (Serps).

The report explains that each year more people are retiring on two pensions – the basic state pension and either Serps or an occupational pension scheme.

In 1986, 50 per cent of all pensioners, but 70 per cent of newly-retired people, had an occupational pension.

A similar picture emerges for private savings, with 70 per cent of all pensioners, but 85 per cent of those newly-retired, receiving income from savings or investments.

The Treasury report admits that not all pensioners have shared in this increased prosperity, particularly the older and disabled pensioners.

From October, all disabled pensioners and other pensioners aged 75 or over – some 2.5m people – will receive an additional state pension of £2.50 a week for a single person and £3.50 a week for a married couple.

Between 1978-79 and 1988-89, expenditure on social security benefits paid to the elderly had risen by 27 per cent in real terms. That reflects the increased payments under Serps as the scheme matures and a 10 per cent rise in the number of people receiving the state pension, particularly a growing proportion of married women receiving a pension in their own right rather than as dependants of their husbands.

The report predicts that by 2025 the number of pensioners in the UK will have risen from the present 9.5m to about 13m. The ratio of people of working age to those of pension age will fall from 3.4 to 1 to 2.6 to 1.

The report says this highlights the need to release the talents and energies of older people who want to continue working and that the concept of a "normal retirement age" should become outmoded.

Economics likely to generate Hinkley verdict

David Green looks at factors which may influence the outcome of the public inquiry

THE public inquiry into plans for Britain's second pressurised water reactor (PWR) nuclear power station has entered its final phase.

Mr Michael Barnes QC, the inspector, has the difficult job of deciding whether or not to recommend that the proposed Hinkley Point C plant should be built.

It is one of four PWRs which the Central Electricity Generating Board believes will be needed before the year 2000, at a total capital cost of £5.9bn.

Each reactor will generate about 1,175MW of electricity and is expected to take between six and seven years to build.

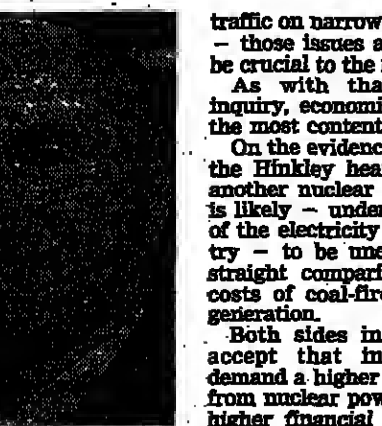
The Hinkley inquiry, which has begun hearing final submissions, is due to resume on September 5 after a summer recess and is expected to be completed within the following three weeks.

Mr Barnes's report to Mr John Wakeham, Energy Secretary, may be submitted in February or March next year.

Hinkley Point C is being opposed by more than 20,000 individuals and organisations including the leading UK environment groups and a consortium of 24 local authorities in the south-west of England and south Wales.

Since the inquiry started 10 months ago, Mr Barnes has heard evidence on economic, safety and local environmental issues.

Neither of the latter seem destined to prevent a favourable recommendation although objectors have been pressing for an extension of the emergency evacuation zone and steps to reduce environmental impact, such as the burying of new power lines which would be necessary if the plant is built.


Michael Barnes: will not take final decision

While the generic safety of the PWR has been challenged, few issues have been identified further to those raised during the 27-month inquiry into Sizewell B, Britain's first PWR, under construction in Suffolk.

Hinkley Point C would be an almost exact replica of the Sizewell plant.

There are already two nuclear power stations at Hinkley Point, on the Somerset coast, and by the time a third could be built the oldest plant, a Magnox power station, is almost certain to be closed.

Although there are environmental matters of deep concern to local people and national groups – including the siting of a workers' hostel, routine radiation emissions from the site and heavy lorry traffic on narrow country lanes – those issues are unlikely to be crucial to the main decision.

As with the Sizewell B inquiry, economics has proved the most contentious issue.

On the evidence presented at the Hinkley hearing, building another nuclear power station is likely – under privatisation of the electricity supply industry – to be uneconomic in a straight comparison with the costs of coal-fired electricity generation.

Both sides in the inquiry accept that investors will demand a higher rate of return from nuclear power because of higher financial risks, including the uncertain cost of decommissioning stations.

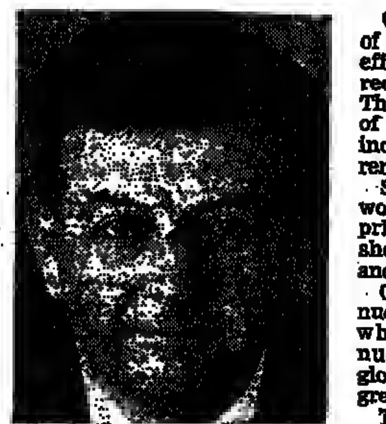
The Government has introduced legislation requiring the new electricity distribution companies to buy between 15 per cent and 20 per cent of their power from non-fossil fuel sources.

Early in the inquiry the inspector rejected a CEGB submission that it was not necessary, in view of the non-fossil fuel requirement, to compare the costs of nuclear power and coal-fire generation.

Evidence subsequently submitted by the board and by opposition groups confirmed nuclear power was likely to be the more expensive.

With the electricity supply industry about to be privatised, the Government has sought to ensure a diversity of sources survives.

Both the Government and the CEGB believe it pays to have a diversity of power sources to ensure security of supply, and the extra cost to consumers is worth paying.


John Wakeham: should get report early next year

Coal currently produces about 80 per cent of the UK's electricity.

Because few renewable energy schemes – such as wind turbines – have been commissioned, almost the entire non-fossil fuel requirement will, initially at least, have to be met by nuclear power. Objectors at the Hinkley Inquiry have called for the benefits of a diversity policy to be expressed in money terms.

However, the CEGB has said it is difficult to quantify security of supply and the confidence that it gives to a country's overall economic growth.

Objectors argued there must be a limit to the price paid to maintain diversity.

The Council for the Protection of Rural England told the hearing that a greater and more secure diversity could be obtained without distorting the market with the non-fossil fuel requirement.

Objectors believe promotion of energy conservation and efficiency would lead to a reduced electricity demand. That could be met by a variety of small generating plants, including gas-fired units and renewable energy projects.

Such projects, they suggest, would be more attractive to a privatised industry, offering shorter construction periods and lower capital costs.

Objectors also differ from the nuclear industry over the role which can be played by nuclear power in reducing global warming, the so-called greenhouse effect.

The industry says nuclear power does have a significant role because it can replace coal-fired stations which produce large amounts of carbon dioxide, one of the main "greenhouse" gases.

However, objectors said that using nuclear power in this way will merely divert money from energy conservation and efficiency which, they claim, would be more effective in reducing global warming.

Even if Mr Barnes recommends approval for Hinkley Point C and that view is endorsed by the Government, a final decision on whether to proceed will be made by National Power, the largest of the CEGB's successor companies.

The shadow board of National Power has yet to obtain contracts for the electricity which will be produced by the power station over its projected 40-year lifetime.

However, the existence of a non-fossil fuel requirement makes it likely that contracts will be signed.

Young confident in spite of high interest rates

By Ralph Atkins, Economics Staff

THE YOUNG remain the most confident consumers in spite of high interest rates and the slowdown in the economy, according to a report published today.

Consumer confidence indicators calculated by Staniland Hall, the business forecasting group, show a steady fall in optimism in each age group in the past year.

However, in the three months to June, 18 to 34-year-olds were still the most confident consumers. The gloomiest age group was the over 64-year-olds.

The results suggest young people, who might be expected to have bigger mortgages, have not been disproportionately hit by the sharp rise in interest rates. Staniland Hall says the rate of fall since last summer has been roughly equal in all age groups, although pensioners have seen a slightly slower decline. The report shows men were more confident than women and that optimism was greater among higher socio-economic groups.

The confidence indicators are based on surveys and include questions on the general economic situation, households' own financial situation, and expectations about prices and unemployment.

When asked about the future economic situation, less than one in five of those in the study believed that it would improve in the next 12 months.

Consumer spending forecasts, Staniland Hall Associates, P.O. Box 643, Alderbury House, Upton Park, Slough. SL1 2UJ. £110 single issue.

International fur trade scurries away from City

By Maurice Samuelson

THE INTERNATIONAL fur trade, which has thrived in the City of London for more than 300 years, is tip-toeing out even faster and more conclusively than the press abandoned Fleet Street.

Next month will see what could well be the City's last fur auction, ending a chapter begun in 1670 with the grant of a Royal Charter to the Hudson Bay Company by King Charles the Second.

Rocketing property prices, which sent the newspaper barons scurrying south and east of the City, have also put the skin trade to flight.

The Hudson's Bay House auction centre, at 67 Upper Thames Street, is about to be demolished as part of the big redevelopment which is tearing up the river bank directly opposite the newly found site of Shakespeare's Rose Theatre.

The redevelopment will earn its owner, the Hudson's Bay Canada parent company, far more than it makes out of the London fur trade.

Demolition teams are also uprooting the close-knit fraternity of fur merchants and commission agencies from the nearby buildings in Garlick Hill, St Thomas Apostle Street and the aptly named Skinner's Lane.

Next month's auction will be the seventh in London this year. They account for a total annual business of £100m - £150m, with a similar level of activity carried out on outside the auction hall.

There are wider reasons for the exodus. Although the Hudson's Bay Company fortunes were founded on the great Canadian "fur forest", it is now primarily involved in oil and gas, property, banking and retailing, with fur accounting for only 5 per cent of turnover.

In North America, its last remaining auction house, in New York, is being merged with the business in Toronto, which has already been sold to its management.

In London, the rot began two years ago when Hudson's Bay Canada sold its local auction house, Hudson's Bay & Annings, to Finnish Fur Sales, a powerful co-operative of 4,000 Finnish mink farmers. After next month's auction, the London sales will be transferred to Helsinki.

Mr Tony Kehyzian, a director of Hudson's Bay & Annings, says that, if it had not been for subsidised rents, the auction house would have been shut two years ago. "We have been living in a fool's paradise."

Britain is, in any case, only a minor market for furs and 95 per cent of those auctioned in London were for re-export.

Most of the big sales take place in Scandinavia and Leningrad and most of the tailoring of furs takes place in the cheap manufacturing centres of the Far East.

Hudson's Bay & Annings will keep a London toe-hold to deal with British fur farmers. But after 300 years it is leaving the City and will follow the Garlick Hill residents to a North London suburb.

CONSTRUCTION CONTRACTS

Business park project in Marlow

LOVELL DEVELOPMENTS has begun the first phase of the redevelopment of its Thames Industrial Estate at Marlow, Bucks.

Originally occupied by timber yards, the 12-acre site has been managed by Lovell Developments as an industrial estate since the early 1970s. The estate forms a natural continuation of the Globe Park business park development on the A404 Marlow bypass. The first phase of the scheme follows the neighbouring development in Fieldhouse Lane known as Orbis.

Comprising about 48,000 sq ft of B1 accommodation in two three-storey blocks, the building work will be carried out by Lovell Construction under a £5m design/build contract. Work has started with completion scheduled for summer 1990. A combination of decorative brickwork, clerestory windows, deep overhanging slate roofs and clearly defined entrances are features of the design. The air-conditioned buildings will be carpeted and include open-plan space for office and/or light industrial use. The development will be surrounded by paved and landscaped areas. There will be parking for 190 cars.

Further phases will follow and, as the leases expire, the entire estate will be redeveloped.

University medical buildings

The eastern region of WIMPEY CONSTRUCTION UK has been awarded a £9m contract by Oxford University Fixed Assets for the new Edward Robinson Squibb building, which will house the University's Department of Pharmacology and an adjoining building for the Medical Research Council's anatomical neuropharmacology unit.

The development will comprise three wings totalling some 7,240 sq metres in five and six-storeys, with an in situ concrete frame and brick/block walls on bored pile foundations. Windows will be of aluminium and the roofs timber-framed with tile and PVC sheet finishes. Boiler house, roads, pavings and landscaping are included in the contract which is due to be completed in March 1991.

Better health facilities in Yorkshire

JOHN LAING CONSTRUCTION has won nearly £20m orders in Yorkshire. The largest is a £14m contract awarded by Trent Regional Health Authority for the north block of Sheffield's Northern General Hospital.

This project will be undertaken as a joint venture with Crown House Engineering - Laing-Crown Sheffield - and will involve constructing a 168-bed general hospital block in three and four storeys, plus alterations to existing theatres. Trent RHA has also awarded a £3m contract to build long-stay facilities for mentally ill people at the Swallownest Hospital in Rotherham. Some 48 beds will be provided in a series of single and two-storey buildings designed on traditional lines.

An extension to the Alfred Bean Hospital at Driffield will provide a 24-bed community hospital for the area. Yorkshire RHA has awarded a £1.5m contract for a low-rise extension which will house the outpatients, minor injuries and rehabilitation departments, a day unit for elderly people and x-ray facilities.

Start-up industrial units

Property developer Bridge Gate Developments has awarded design and build contracts totalling £5m to HEWGATE CONSTRUCTION.

These include a 40,000 sq ft speculative development of 20 B1 start-up light industrial units on the Bridge Gate Business Park in Aylesbury.

The units are accomodated within a series of three two-storey buildings being constructed partly in brick and horizontal sheet cladding on a steel framework.

Work is also about to start on a 38,000 sq ft high-technology business complex on the Foxholes Industrial Estate in Hertford.

When completed in October, the complex will include 15 B1 freehold business units ranging in size from 1,000 sq ft to 4,000 sq ft.

Spread of work for Tarmac

Civil engineering and building projects worth about £14m have been awarded to TARMAC CONSTRUCTION. They include a £2.8m contract for designing and building roads and sewers on a business park development at Coleshill, Birmingham, for The Birmingham Business Park Partnership. Work has started and is due for completion in a year.

Two orders have been awarded for work on two sites for Asda Stores. At Eastbourne the company has a £2.8m contract for fitting-out a superstore and building a petrol-filling station, and at Kendal a £633,000 contract for site excavation works.

At Warton Aerodrome, Preston, the company has a contract for refurbishing a hangar for British Aerospace (£1.1m) and at Baglan, West Glamorgan, is building factory units for the Welsh Development Agency (£1m).

Other contracts include fitting-out a warehouse and offices at Hedge End, Hampshire, for Whitbread and Company (£749,000); reconstructing a dock jetty in Bute Town, Cardiff, for Cardiff Bay Development Corporation (£479,000); and refurbishing offices at Bromborough, Merseyside, for Van den Berghs and Jurgens (£364,000).

The contract housing division has contracts worth over £4.3m.

Housing schemes in Glasgow

FAIRCLOUGH has three contracts totalling £4.5m for housing schemes in Glasgow. For Jamaica Street, the company is building a seven-storey block of flats in West Graham Street which will provide 79 one, two, and three-bedroom flats on five floors above two floors of car parking. The company is rehabilitating 32 flats in Dalhousie and Rose Streets. The third project is modernisation of a mixed residential/retail complex in St Vincent Street, where Fairclough is upgrading 15 flats and six shops.

English China Clays laboratory

This model is of a 74,000 sq ft central laboratory SCIENTIFIC LESSER is building for English China Clays on an 11½ acre site at the new St Austell Business Park. Work on the £8m contract has started, and the facility is expected to be operational by the spring of 1991.

DIARY DATES

FINANCIAL

TODAY
COMPANY MEETINGS-
Equity Consort Inv. Tst., New Court, St. Swithin's Lane, E.C., 10.00
Vibroplant, Moat House Int. Hotel, Harrogate, 1.00
BOARD MEETINGS-
Finals;
Ashtead Grp.
Dunton
Interims;
Amcliffe
Edinburgh Oil & Gas
Mining & Allied Supplies
Relyon
TR Pacific Inv.
DIVIDEND & INTEREST PAYMENTS-
Anglo Leasing 3.5p
BP 3.65p
Do. (Int.Certs) 3.68p
Brown Shipley 6.5p
Cape Inds. 5.5p
Cons Bultfontein 4.5cts.
GEI Int. 4.4p
Gartmore American Sec. 2.5p
Griqualand West Diamond Mining 20.5cts.
Hardys & Hansons 9.4p
ICI 7¾% Un. Ln. 1986/91 1.4438pc.
Do. 8½% Un. Ln. 1988/93 0.6521pc.
Johnson, Matthey 5.5p
Powell Duffryn 14.5p
Randfontein 900cts.
Southern Rhodesia 4½% 1987/92 (Unassented) 2¼pc.
Do. (Assented) 2¼pc.
Tiger Oats 5½% Cm. Prf. 5.5cts.
Unisys Corp. 25cts.
TOMORROW
COMPANY MEETINGS-
Stead & Simpson, Fosse Way, Syston, Leicester, 2.30
BOARD MEETINGS-
Finals;
Charterhall
Interims;
Capital & Counties
Continental & Ind.
Dares Estates
Kleinwort Overseas
Life Sciences Int.
Manchester Ship Canal
Pacer Systems
WPP
DIVIDEND & INTEREST PAYMENTS-
Anchor Int. 12.38cts.
BAA 5.5p
Brown & Tawse 5.65p
Burns-Anderson 1.9p
De Beers 40% Cm. Prf. (Reg.) 23.17529p
Do. (Br) 23.17529p
Do. 8% Cm. 2nd Prf. 0.92701p
Fleming Universal Inv. Tst. 2.2p
Hoskyns Grp. 1.3p
Reed Int. 8p
Staveley Inds. 4.9p
Triplevest 7¾% Db. 1987/91 3½pc.
Widney 0.5p
WEDNESDAY AUGUST 9
COMPANY MEETINGS-
Amersham Int., Hotel Inter-Continental, 1, Hamilton Place, Hyde park Corner, W., 12.00
BTP, Cafe Royal, 68, Regent Street, W., 12.00
Bristol Evening Post, Temple Way, Bristol, 12.00
E.R.F. (Hldgs.), Chimney House Hotel, Congleton Road, Sandbach, Cheshire, 2.30
Racal Elect., Institute of Electrical Engineers, Savoy Place, Strand, W.C., 11.45
Vistec Grp., Midland Hotel, Derby, 1.00
BOARD MEETINGS-
Finals;
Beales (John)
Copson (F.)
McKay Securities
Property Security Inv.
Interims;
Aitch
Ansbacher (Henry)
Betacom
British Alcan Aluminium
Chieftain
Commercial Union
Fairway (London)
Foreign & Colonial
GKN
Heywood Williams
Impala Platinum
Metal Bulletin
Renown
Simon Eng.
Ultramar
DIVIDEND & INTEREST PAYMENTS-
Baggeridge Brick 0.75p
Body Shop 1.125p
Bristol Evening Post 7p
Deelkraal Gold Mining 11.601320p
Doornfontein Gold Mining 1.150132p
Driefontein Gold Mining 27.603168p
E.R.F. (Hldgs.) 11p
Edbro 8p
Gold Fields Coal 9.201056p
Halifax Bldg. Society Fltg. Rate Ln. Nts. 1994 £163.52
Kloof Gold Mining 14.951716p
Libanon Gold Mining 4.600528p
Mansfield Brewery 7.25p
Minty 0.47p
National & Provincial Bldg. Society Fltg. Rate Nts. 1991 £327.67
Royal Bank of Scotland Fltg. Rate Nts. 2005 £163.05
Venterspost Gold Mining 8.050924p
Vistec Grp. 0.1p
Walker & Staff 3p
THURSDAY AUGUST 10
COMPANY MEETINGS-
Berkeley Grp., Old House, 4, Heath Road, Weybridge, 10.00
CPU Computers, Sherwood Place, Copse Road, St. Johns, Woking, 12.00
Cropper (James), Burneside Mills, Kendal, 10.30
Somic, last Drop Hotel, Bromley Cross, Bolton, 12.00
BOARD MEETINGS-
Finals;
Compco
Rexmore
Interims;
British Petroleum
Bullers
Davies & Metcalfe
Frost
Independent Newspapers
Law Debenture
Rotork
Royal Dutch Petroleum
Shell Transport
Smith & Nephew
DIVIDEND & INTEREST PAYMENTS-
Amber Indl. 9.75p
American Express 21cts.
Aukett Assoc. 1.25p
BTP 4.5p
Cohen (A.) 15p
Do. N/Vtg. A 15p
Conversion 9¾% 2001 4⅞pc.
Gestetner 1.5p
Do. Cap. 0.075p
Pennant Grp. 0.2p
Renold 2p
Salvesen (Christian) 3.1p
FRIDAY AUGUST 11
COMPANY MEETINGS-
Aberfoyle Hldgs., Globe House, 4, Temple Place, W.C., 11.00
Campbell & Armstrong, Midland Hotel, Peter Street, Manchester, 11.00
BOARD MEETINGS-
Finals;
Stavert Zigomala
West Tst.
Interims;
Alliance Tst.
March Grp.
Unilever
Unilever NV
DIVIDEND & INTEREST PAYMENTS-
Anglia TV 2.6p
Apricot Computers 1.25p
Bermuda Int. Bd. Fd. 30cts.
Bridgend Grp. 0.4p
Builder Grp. 1.7p
Caledonia Invs. 6.5p
Caradon 7.5p
Chemoxy Int. 6.2p
Cons Murchison 30cts.
Do. (Rest. Transfer) 30cts.
Control Securities 0.45p
Fleming American Inv. Tst. 0.5p
Harrisons Malaysian Plants 5sen
Hobson 0.5p
NCR 33cts.
Panfida Grp. 0.5p
Pathfinders Grp. 0.4p
Scott's Restaurant 4.3p
Stead & Simpson 3.9p
Do. A N/Vtg. 3.9p
TR Australia Inv. Tst. 2p
Tams (John) 2.4p
Turnbull Scott 3.85p
Watergiade Int. 2.75p
SATURDAY AUGUST 12
DIVIDEND & INTEREST PAYMENTS-
Exchequer 11% Ln. 1990 5.5pc.

Trade Fairs and Exhibitions: UK

August 13-17
Gifts Fair (0473 622093) Hove Town Hall

August 17-20
Antiques Fair (04447 2514) Kensington Town Hall

August 26-28
Town and Country Festival (0203 696969) Kenilworth

September 3-6
Top Drawer Gift and Decorative Accessories Exhibition (01-727 1929) Alexandra Palace

September 3-7
International Autumn Fair (01-855 9201) Olympia

September 5-8
International Carpet Fair (021-705 6706) Exhibition Centre, Harrogate

September 5-8
Offshore Europe Exhibition and Conference (01-549 5831) Aberdeen

September 10-13
International Menswear - MAB (01-437 8754) Earls Court

September 12-14
Point of Sale, Merchandising and Display Exhibition and Conference (01-940 3291) Business Design Centre, Islington

September 13-23
Antiques Fair (04447 2514) Chelsea Old Town Hall

September 15-23
International Boat Show (0703 737311) Southampton

September 17-19
DIY Trade Show (01-302 8585) Earls Court

September 18-22
International Handling & Storage Exhibition (0895 56431) NEC, Birmingham

September 15-19
International High Definition Television Exhibition - HDTV (01-661 8866) Tara Hotel, London

September 19-22
International Helicopter Technology & Operations Exhibition (01-549 5831) Redhill Aerodrome

September 25-28
International Police Exhibition & Conference (01-446 5211) Barbican, London

Overseas Exhibitions

August 25 - Sept 1
World Fair for Beverage Technology - DRINKTEC-INTERBRAU (01-948 5166) Munich

August 25 - Sept 3
International Audio and Video Fair (01-930 7251) Berlin

September 3-6
International Autumn Fair (0375 392222) Leipzig

September 4-8
Show of the Nations Exhibition (01-977 3474) Vienna

September 13-14
Pre-Press Exhibition (0372 373161) Copenhagen

September 13-17
International Fisheries Industry Exhibition (01-948 9900) Nantes

September 14-24
International Motor Show - IAA (01-734 0543) Frankfurt

September 17-26
International Hardware Show - QUOJEM (01-225 5566) Paris

Sept 25-Oct 1
International Technical Fair (01-686 5219) Plovdiv

Sept 28-Oct 6
International Robotics, CAD/CAM, Automation Engineering Exhibition - PRODUCTIQUE (01-225 5566) Paris

Business and management conferences

August 21-25
Management Centre Europe: The fundamentals of finance and accounting for non-financial managers (32/2/516.19.11) Brussels

September 6
Tolley Conferences: Payroll manager's review third annual updating conference 1989 (01-680 5662) London Press Centre

September 11
The Industrial Society: Annual hours - principles into practice (01-262 2401) London

September 12
CBI Conferences: Pay and performance (01-379 7400) Centre Point, London

September 13-14
Financial Times Conferences: World Motor (01-925 2323) Hotel Inter-Continental, Frankfurt

September 13-15
ANCE+CITHA: World convention of trading companies (39 2 4818121) Milan

September 14
Tolley Conferences: Duties and responsibilities of a company secretary (01-680 5662) London

September 15
The Economist Conference Unit: Deregulation and joint ventures in international telecommunications strategies (01-839 7000) Royal Garden Hotel, London

September 21
CBI Conferences: City investor relations (01-379 7400) Centre Point, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

MANAGEMENT

A theory confounded

Managers who prove to be craftsmen

Michael Dixon assesses some research which finds that executives do not work to a blueprint but use their intuition

The surviving executives of the previous chief's fierce cost cuts stiffened in their seats. "Right then, here's what I'm going to do," his successor declared.

His reputation as a man of action had arrived before him, and with the business in decline they were prepared to hear the worst.

Indeed they had been surprised when, instead of snapping out his own diagnosis and prescribed cure at the start of his first senior managers' meeting, he had invited and evidently listened to their views. But now the moment of decision had come.

"As from this instant," the decision-maker went on, glancing at his watch, "I'm going on holiday for three weeks. By the time I get back, I expect you to have worked out a strategy for turning the company round."

That chief executive is one of 14 heads of UK businesses who, in return for a promise of anonymity, have just taken part in a controversial research study together with their topmost management teams. In their most recent financial years, they presided over a combined turnover of £34.5bn of which pretax profits averaged 13 per cent.

The study of the chiefs and their right-hand colleagues – about 50 executives in all – is controversial because it bucks the trend in business-school thinking about managerial work.

"While hardly anyone now supposes management to be an exact science, it's still largely seen as a straightforward craft," says Professor Iain Mangham of Bath University's management school who led the research. "Good managers are thought to have a clear mental blueprint of the future result they want, and a set of self-contained skills called 'competencies'. They use the competencies like a mechanic uses tools to arrive at the result specified by the blueprint."

At the top level, for example, the skills would be of two main kinds. One would be strategic competencies such as the foresight to spot what the organisation's aim should be, and the analytical skills to plan the best broad way of achieving it. The other kind would be tactical competencies including the communications skills to persuade the employees to follow the plan, and the knowledge of finance, marketing and so on to control progress.

"The craft view is convenient for people like me," the professor adds. "It implies that, provided people have the right aptitudes for the work, they can be made into good managers by sending them on courses – not least in management schools."

It was with the craft view foremost in mind that he and two colleagues, Annie Pye and Susan Abbotson, set out on the study with a £40,000 grant from the Economic and Social Research Council. By detailed questioning of the 50 executives, the Bath trio planned to establish what sorts of competencies contributed to good performance at senior level, in which ways they might be linked with company success, and how they could be assessed and developed.

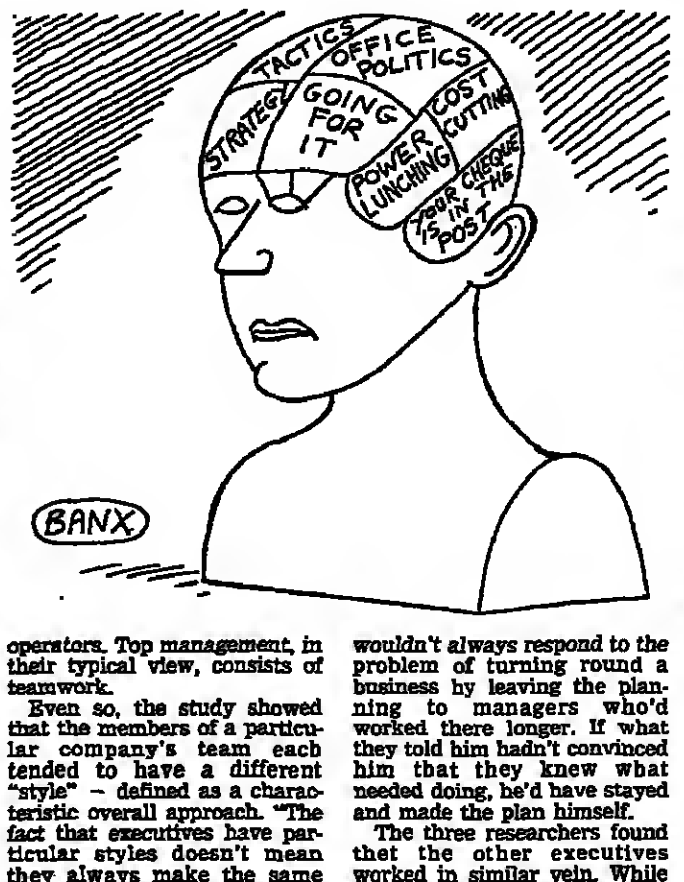
"So much for planning," Mangham sighs.

The search for what he now calls the "identikit manager" proved futile.

Although the executives are undeniably good at all aspects of their jobs, their overall competence could not be traced back to specific competencies. Far from being able to tell whether the skills in use at any one time were strategic or tactical, the researchers found no evidence to support even the basic assumption that managers operate by first thinking out what to do, then doing it.

"Given that so much managerial work is done in the mind rather than just planned in it – negotiating is an example – an outside observer can hardly expect to spot which is happening," says Mangham. "But the executives themselves make no distinction between the two.

"To them, thinking and doing are inextricably intertwined. And while they use their minds intuitively as well as rationally, they don't do a spell of reasoning followed by a spell of intuiting. They do both at the same time. Perhaps that's why they're not stumped by what some managers would see as paradoxes, like a need to improve product quality while cutting costs. Their answer might be to have fewer employees each responsible for raising the quality of their part of the process."



Another finding was that the executives did not look on themselves as general managers with the ability to run pretty well any organisation regardless of its circumstances. They rejected the idea that they were guided by widely applicable "management principles". Their main guide was a series of object-lessons they had learned, like apprentices, from managers they had worked for in the past.

Nor, in most cases, did they see themselves as individual operators. Top management, in their typical view, consists of teamwork.

Even so, the study showed that the members of a particular company's team each tended to have a different "style" – defined as a characteristic overall approach. "The fact that executives have particular styles doesn't mean they always make the same response to the same kind of challenge," the professor adds.

"Take, for example, the new chief who took a holiday and left the managers he'd inherited to frame the recovery plan – which worked, by the way. He'd never have made his own plan before consulting them.

"That's not his style. But he wouldn't always respond to the problem of turning round a business by leaving the planning to managers who'd worked there longer. If what they told him hadn't convinced him that they knew what needed doing, he'd have stayed and made the plan himself.

The three researchers found that the other executives worked in similar vein. While their broad style remained consistent, they varied their specific acts to suit their judgment of the nature of the challenge and the resources available to meet it.

"In sum, it seems that far from resembling mechanics working to blueprints drawn up well in advance, successful top managers are like creative artists," Mangham continues.

"Those we studied don't run their organisation by operating it as skilled workers would a machine tool; they shape it like sculptors do their raw material. Moreover, they learned the job by actually doing it, modelling themselves on established practitioners they saw as masters. As a result they've pieced together a particular sense of what can be done with the meterial to hand under particular conditions, and of what sort of result will be 'good enough' in the circumstances."

Mangham thinks the findings have a profound implication for management development. They suggest that managers – in the sense of leaders of enterprises as distinct from administrators of systems – cannot be "made" by formal courses of training in business schools or anywhere else.

"The only wey creative arts *can be learned properly is* by doing them for real under the eye of respected masters, and top management is no exception. So organisations needing to develop managers need to split themselves into small business units, and set budding executive talents to run them. It should be possible to do that without incurring too much risk.

"As for management schools, we can help by supplying 'artists' materials and equipment', by teaching them additional techniques and so on, but only as an adjunct to the in-the-job learning. But another role for us that's at least as important is to serve as critics of the work the managers produce.

International management comes to Kiev

By Michael Skapinker

THE INTERNATIONAL Management Institute in Geneva has built up a formidable international reputation. The International Management Institute in the Soviet Republic of the Ukraine hopes it can do the same.

IMI-Kiev, which opened its doors last month, is a joint venture between IMI-Geneve and the Institute of Economics of the Ukrainian Academy of Sciences. The chief negotiator for IMI-Geneva was Bohdan Hewrylyshyn, its former director, who was born in the Ukraine.

Bringing manegement education to eastern Europe has been a long-standing goal of several western business schools. Last April, the London Business School ran a course in the UK for 20 Soviet managers. LBS claimed that its programme was the first offered to Soviet managers by a western business school.

IMI-Kiev is still recruiting for what it hopes will be an international faculty. Its teaching languages will be Ukrainian, English and Russian.

The school will offer a one-year Masters of Business Administration degree to managers with et least three years' experience. It will provide shorter courses for more senior managers. It will also offer research and consulting services to other educational institutions and to individual firms.

Professor Oleb Bilorus, the acting director of the new institute, says that *perestroika* has brought with it a new Soviet attitude towards management. "Management of industrial production has ceased to be a political issue and is no longer regarded as an exclusive feature of capitalism. It has been admitted that the laws of scientific management are the same for any society," he says.

He adds that "those Soviet concerns which go international without knowledge of scientific and applied management may go bankrupt and do great harm to this country's national economy."

At the beginning of next year, IMI-Geneva is to merge with Imede in Lausanne. The merged school, the International Institute for Management Development, will continue the association with IMI-Kiev.

The commercial university of Uppsala

Peter Marsh reports on Pharmacia's research strategy

Anyone with a keen interest in the detailed operation of the human body would probably find working as a researcher for Pharmacia, the big Swedish healthcare and instrumentation group, close to paradise.

The company's interests include eye surgery, medical diagnostics, pharmaceuticals and highly complex equipment for analysing or purifying biological materials. Not only is this range of disciplines extremely exciting to the scientific mind, the company backs these fields with unusually large amounts of hard cash.

Pharmacia spends about one fifth of its annual revenues, which last year reached SKr6.6bn (£656m), on research and development (R&D) – a high proportion even by the standards of high-tech sectors like drugs or electronics.

What has made Pharmacia stand out in recent years is its success in tying scientific work to commercial objectives. Although not a major force in the world drug industry, it is one of the leaders in biology-based instrumentation such as chromatography and protein analysis.

It also has a good position in medical diagnostics, which is based on kits of chemicals for identifying physiological conditions linked to disease.

The important job of co-ordinating Pharmacia's broad spread of scientific activities, and of meshing these with business goals, belongs to Elof Johansson, the company's 53-year-old R&D director.

He is in charge of 1,600 scientists and other research workers whom Pharmacia employs – half of them at the company's headquarters at Uppsala and the rest in centres in Finland, the US, Japan and Britain.

Johansson says that much of the scientific drive of Pharmacia is predicated on the idea of linking research firmly with business units. Another theme is to make a clear distinction between pure research – which his company makes a point of not doing – and product development.

As a result of this policy, Pharmacia, for all the importance it attaches to new scientific ideas, has no centralised research laboratories of its own.

Instead, all 1,600 R&D workers, who number about 15 per cent of the company's total staff, work in teams in commercial divisions which also include marketing and sales-support people.

Part of the company's philosophy is to strike up strong links between Pharmacia's scientific and technical workers and educational and research establishments in Sweden. Johansson says his company expects these groups to be thinking about pure science, leaving Pharmacia to get on with the exploitation.

"We (Pharmacia) think of ourselves as the commercial university of Uppsala," he says. "We try hard not to get involved in pure research. What we do is really all about product development.

"You have to understand that the rules and goals involved in these two areas are quite different. We have thought about having e (pure) research set-up of our own. But we rejected this because you have to be free to grab the innovations from wherever they are. If you are not doing pure research yourself this helps to stop the NIH (not invented here) syndrome gaining hold."

Many of the basic ideas behind Pharmacia products have come initially from work in a number of research institutions with which the company has strong links.

They include the Karolinska Institute in Stockholm, Uppsala University and the University of Linköping.

Out of these connections have come, over the past 40 years, scientific advances in areas like drugs to treat bowel disease, blood substitutes, chromatography (chemical separation) materials and reagents for eye surgery – all of which are now staple products for Pharmacia.

Johansson says that a vital part of the R&D worker's function within Pharmacia is to get on well with people in the scientific institutions outside the company and to listen to their ideas.

It follows that Pharmacia is also dependent on these establishments receiving adequate funding from government bodies on which they rely for most of their finance and on morale of staff in these places remaining high.

He himself knows the world of Swedish pure research very well having been part of this community up to 1984 when he joined Pharmacia; his previous job was professor of obstetrics and gynaecology at Uppsala University.

APPOINTMENTS

Chairman of Parsys

■ Mr Douglas Stevenson has been appointed chairman and Mr Ian Coburn finance director of Parsys, a THORN EMI subsidiary. The company was formed last year to commercially develop and market the Supernode 1000 series of high-performance transputer-based parallel computers developed under the ESPRIT programme. Mr Stevenson will retain his present post as chief executive of Software Sciences, a sister company. He was chief executive of INMOS until its sale to SGS-Thompson earlier this year. Mr Coburn was Thorn EMI's manager of management information services.

■ SD-SCICON has appointed Mr Frederick Adelmann as group chief accountant, and to the European board. He joins from Charter Consolidated.

■ NORWICH UNION INSURANCE has appointed Mr Sean White as national sales manager (appointed representatives).

■ Mr A. Leasor has been appointed a director of LLOYD THOMPSON.

■ Mr W.M. Houston, managing director, BP Energy, has been appointed chairman of the COMBINED HEAT AND POWER ASSOCIATION.

■ Mr Gary Noon has been appointed vice president, UK pharmaceutical division, E.R. SQUIBB & SONS. He was marketing director of the division.

■ CLIFFORD CHANCE has appointed Mr Rodney Short to the Paris office and Mr Peter Cornell to the Madrid office. Both are international banking partners.

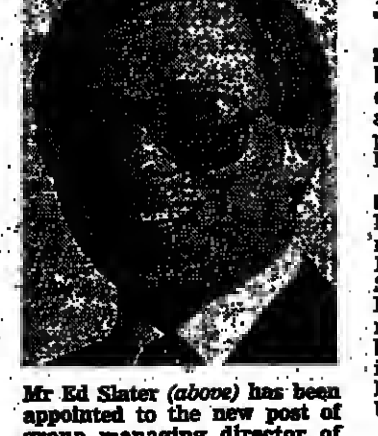
■ Mr David Cowie has been appointed chief financial officer and secretary of the MANCHESTER BUILDING SOCIETY. He was director of finance, Lancashire Enterprises.

■ Mr David McLachlan has been appointed credit and risk director at MIDLAND MONTAGU, part of Midland Group.

■ Mr Tony Newnham has been appointed chairman of D.G. Durham International, with Mr Nick Morgan as chief executive. Mr Brian Durham is chairman of D.G. DURHAM & CO, and Mr Alf Day has been appointed managing director. Mr David Hall, chief executive of Accident & General, has been appointed to the board of parent company D.G. Durham Group.

■ Mr Peter Bromwich has been appointed a non-executive director of EADIE HOLDINGS. He is managing director of Midland City Properties.

■ Mr Geoff Eades has been appointed finance director of both N & P and FIOS WINDOW GROUP. He was finance director and company secretary of Shelvoke Dempster.



Mr Ed Slater *(above)* has been appointed to the new post of group managing director of the PREMIER METROPOLIS GROUP. He has been succeeded as financial director by Mr Michael Graham.

■ Mr John Sadiq has joined the main board of VISTA ENTERTAINMENTS as a non-executive director. He remains a director of Manchester Theatres.

■ Mr Tony Pattemore has been promoted to director and general manager of the FEDERAL EXPRESS SYSTEMLINE. He was operations director.

■ MINET INSURANCE BROKERS (UK) has appointed Mr Peter Smith, Mr Jeremy Turnage and Mr David Vose to the board. Mr Phil Buckingham has joined the board of J.H. Minet Reinsurance Brokers.

■ Mr Peter W.Ll. Morgan, director general of the Institute of Directors, has been appointed a non-executive member of the SOUTH WALES ELECTRICITY BOARD.

■ Dr Tom Crossett has been appointed head of the environmental policy department of NATIONAL POWER. He was chief scientist, Ministry of Agriculture, Fisheries and Food.

■ Mr Neil Kerr has been appointed to the board of BZW RESEARCH after returning from two years with BZW in Tokyo. He will undertake research into international equities. Mr Christopher Turner, a senior property analyst, also joins the board.

■ Mr Robin Kerr has been appointed finance director for BRITISH CREDIT TRUST, the finance arm of the Bank of Ireland. He was credit director.

■ W. HAWLEY & SON has made Mr Michael Hall its chairman in succession to Mr Sefton Hawley who died in June.

■ Mr David G. Calladine has been appointed managing director of FLYGT PUMPS, a supplier of submersible pumping plant and equipment. He was marketing director.

■ Baron Willem J.R. van Lynden will become general manager of RABOBANK NEDERLAND, London, on September 1. He succeeds Mr Henk G. Gentis who will return to The Netherlands to become deputy head of the international division of Rabobank Nederland in Utrecht.

■ At HERCULES Mr E.R.W. Prescott has succeeded Mr J. Garwood as managing director following his retirement.

■ Mr Paul Harwood, formerly a director of Mercury Asset Management, has joined NEWTON INVESTMENT MANAGEMENT as a director.

■ Mr Paul Fitzgerald has become a director of GT MANAGEMENT (UK).

■ Mr Neil Barton has joined GEOFFREY OSBORNE as a director. He was general works manager.

■ CALLIDUS GROUP has appointed Mr David Janes as managing director, Mr Andrew Sells as a director and Mr James Heath as financial controller. Mr Janes was managing director of Fisons Scientific Instruments Group and Mr Sells a director of Advent, the venture capital company that has provided Callidus with finance.

■ GELDERMANN FINANCIAL has appointed Mr Jon Southgate as director - European marketing. He joins from Citicorp Investment Bank.

Secretary of British Coal

■ NRITISH COAL CORPORATION has appointed Mr Martin Shelton as its secretary. He succeeds Mr David Brandrick who has retired. Mr Shelton was head of the Corporation's information technology department in Doncaster prior to become executive secretary for British Coal in June.

■ NATIONAL HOME LOANS HOLDINGS has appointed Mr Nigel Terrington as group treasurer - he was divisional director of structured financing. Mr Paul Dare becomes chief operating officer of National Home Loans Bank - he was treasurer of NHLC.

■ Mr Robert Wilson has been appointed a corporate finance director in the Leeds office of HENRY COOKE GROUP. He was head, corporate finance department, York Trust.

■ Mr Ian Hammond and Mr Francis Moore have been appointed directors of GM Benefit Consultants, a subsidiary of GUINNESS MAHON HOLDINGS.

Mr Francis Jackson *(above)* has been made sales director at CROWN CORK COMPANY succeeding Mr Peter Clarke who continues as a non-executive director.

■ Mr Alex Rodger, vice president of THE ROYAL BANK OF SCOTLAND's North America regional office in New York, has been appointed manager and director of The Royal Bank of Scotland (Guernsey).

LEGAL COLUMN

Finding right niche is name of the merger game

By Robert Rice, Legel Correspondent

AS THE curtain closes oo what has been e particularly hectic year for the legal profession, it is a fair bet that as lawyers turn their attention momentarily to such matters as reacquainting themselves with their children, a number will be trying unsuccessfully to push to the back of their minds anxious thoughts about what the oext 12 months might hold for tbem and their firms.

Chief among the worriers will be the partners of medium-sized law firms who, no doubt heartily sick of being told that they must get bigger or become true "niche players" if they are lo survive in the new competitive era, may nevertheless begin to wonder if there is not something in it after all.

There is the added complication of competition from accountants and foreign lawyers to consider when the proposals to allow multinational and multi-disciplinary partnerships become law sometime within the next two years.

It would be surprisiog if some of them did not resolve immediately to recommend to their partners on return from holiday that the firm should pursue a strategy of merger at all costs in the coming year as the simplest solntion to the problem.

That, however, according to Spicers Consulting Group, the consultant arm of accountants Spicer & Oppenheim, would be a mistake. Tha third paper in its series on strategic issues for law firms eotilled A Merger is not a Strategy devotes itself to dispelling this widely held view.

Spicers' basic premise – on which July's legal column toocbed – *is that lawyers need* to recognise that their business is an industry rather than solely a profession. Firms that delay accepting those implications will find their businesses deteriorating.

In particular, they argue that law firms which do oot develop a business etrategy will become progressively less successful in an increasingly competitive market.

Merger oegotiations, and mergers themselves, have little chance of success unless they are guided by a business strategy. But a merger is not in itself a business strategy. It is an action a firm may take in pursuit of such a strategy.

The first step in formulating a businese strategy for law firms, Spicers says, is to identify where the firm wishes to compete in the legal market. Who are going to be the key clients and what range and depth of services should tha firm offer in order to build a significant relationship with them?

Having determined thet, the firm must then decide how it intends to gain a competitive advantage in its chosen market position. How will it differeotiate itself favourably from other firms competing for the same clients?

It must then determine the critical factors for success – what capabilities must it develop to achieve its market *priorities – and finally it must* review and develop its strategy in the light of the changing competitive environment.

Whether merger is an appropriate course, and, if so, with what type of firm, depends on the first step in the strategy: deciding where to compete in the market, Spicers says.

The key strategic question for law firms is: "across how wide a range of services must we provide specialisations to meet the needs of our targeted clients"?

For firms which decide that their targeted clients require specialisations across the board, size becomes the driving force of the business.

For the larger City firms, for example, the combinatioo of breadth and specialisation is essential, not only because the needs for external legal advice of the largest UK companies are becoming more specialised, but because the legal industry is becoming increasingly concentrated.

The trend is towards e smaller number of firms gaining a larger share of the largest companies' business.

Medium-sized firms may decide to compete in depth on a narrower front. In this case, Spicers says, the achievement of a small number of specialisations should be the driving force.

Sncess in competing in depth across a restricted range might lead to rapid growth, hut such growth would be a consequence of successful specialisation, rather than the driving force of the business.

A firm whose strategy is to meet a wide range of large company needs will require depth across a broad range of services. If its resources are currently too small to meet this strategy, then merger with another firm with complementary skills could be the best way of competing with all other firms competing in the large company market sector.

Medium-sized firms which choose to compete in depth across a small number, say three or four, of core specialisations may find merger unattractive for several reasons.

Possible merger partners may have unprofitable services outside the desired core specialisations; a profile of professional staff at odds with what is required; substantial support overheads which would largely duplicate those in place in the other firm; or a very different culture. Merger in these circumstances would be "very high risk".

There are alternative courses of action that medium-sized firms can take in these circumstances. One suggestion put forward hy Spicers is for the firm to reduce the breadth of its services and channel all its resources into its chosen core specialisms.

This, they note with a certain degree of perspicacity, "would be an uncomfortahle option to take in the short term because it would almost certainly result in the loss of people (both partners and fee earners) and would force some who remained to move into areas of work in which they were not previously expert. In some cases, however, it can carry a higher chance of success than merger."

So there are different courses by which law firms can achieve their preferred market position. Merger is unavoidable "only where a firm chooses to build depth across a broad range of services, and wishes or needs to do so in the short term".

The course chosen will be affected by certain criteria including scale – how great is the need to increase overall size to get depth and breadth; time constraints – merger is the quickest way to achieve results; size and quality of resources demanded by each specialisation – the need to add a large number of lawyers to a service in order to create a specialisation may mean merger is the most practicable route; and culture.

If a firm decides merger is the correct course then, Spicers say, potential merger partnere ehould be assessed against a shortlist of factors, such as bases of accounting, client lists, profitability, management skills (do they exist to the extent required to run a combined organisation), culture, remuneration technology requirements and premises.

Of these factors, culture is likely to be critical, Spicers says. Mistaken marriages between cultures are a hazard when the top people on each side base their view of cultural compatibility solely on a personal liking for each other.

Finally, it warns, many so-called mergers are in fact takeovers. Each party should therefore take a realistic look at the quality of its management compared to that of its proposed partner. A third-party opinion might be useful here.

It should then stand back from the decision to merge and ask if, at the end of the day, it would really matter if it was taken over by the other firm.

If the answer is yes, then it *should* only proceed with the ntmost cantion. If that is not possible the proposed merger should be abandoned. There is much food for thought here while buried to the neck in sand by vengeful offspring.

LEGAL APPOINTMENTS

ARTS

Die fliegende Holländer

BREGENZ FESTIVAL

There are opera festivals where people dress up for glossy, brochure-hyped events that may be fun (as well as costly) to attend but add little to the sum total of serious artistic endeavour. And there are also opera festivals where place, audience, work and performance style "add up" to create a special, and strictly inimitable, sense of celebratory excitement.

On my own cherished list exemplifying the latter type, the names of Glyndebourne, St Louis, Santa Fe, Wexford, Savonlinna, and (of course) Bayreuth figure prominently. To them I would now add Bregenz, having just visited the 44-year-old festival on the Austrian curve of Lake Constance for the first time, and having seen and heard a production of *Der fliegende Holländer* which counts high among the most thrilling and dazzling pieces of lyric-theatre spectacle of my entire opera-going experience.

It is staged by the ENO team of David Pountney (producer) and Stefanos Lazaridis (designer); and it is the latest in the long line of Bregenz's "Spielen auf dem See" given on the enormous Seebühne the stage in the lake shallows, with both performers and audience (seated in a water's-edge amphitheatre) exposed to the stars — or, in the case of the eighth *Fliegende Holländer* performance, earlier this week, a chill evening breeze and a passing patch of drizzle.

These open-air productions of popular operas — in recent years *Flute, Hoffmann, Turandot*, interspersed with operettas and musicals — have become famous for their sophisticated channelling of means to delight a large audience of locals and tourists as well as more knowledgeable opera devotees. But this *Fliegende Holländer* appears to represent a new Bregenz development: without sacrificing any popular appeal it is at once more elaborate (and, I believe, costly) in its appropriation of the stage and the surrounding waters than anything given here before, and more radical in its dramatic approach.

Producer and designer have, indeed, taken command of a huge space of natural beauty, and turned it into a *Dutchman* dream-cauldron; they have filled it not with realistically detailed sailing ships but with extraordinary mechanical structures — and filled the opera itself with a fresh "inner life" as vivid and exhilarating as the location in which it takes place.

Pountney and Lazaridis use the main Seebühne to flesh out their Industrial Revolution land-and-seascape — vast chrome waterwheels, spinning machines that rise menacingly into action, a central deck able to tilt aslant and shoot out jets of water to suggest Daland's steam-ship in storm-tossed motion. A lighthouse at the back towers over everything; to the right of the main stage the Dutchman's hulk floats free or spurts into action — it is not a ship but a huge motorised barge, on which is supported an enormous foursided house-facade pivoted to spin phantasmagorically whenever Vanderdecken's craving for release dominates the action.

This last is an invention of almost unbelievable ingenuity; so is the grid-platform that rises up out of the water on the left side of the main stage carrying a massive grand piano — once risen it stands (or rather floats) firm, and shallow enough for Senta and Erik to wade about thereon. The whole concatenation of properties and defined areas allows the drama to be propelled across an enormous yet finely defined space; the boundaries of land and water seem all but dissolved, as do those of fantasy and reality. When, early on, Senta sails past the front of the main stage on a floating chaise longue, dressed in crimson and avidly reading an enormons crimson book, the worlds of Wagner, Lewis Carroll, and Freud are on the point of combination.


Dream cauldron: extraordinary mechanical structures make up the set of "Die Fliegende Holländer"

It would take *columns* of close-packed detail to describe the mastery of the *mise-en-scene* — the feats of hallucinatory lighting, the burst of fireworks, the synchronised whizzing of all the various mobile components. One begins to believe that the lake itself is being magicked into previously unimaginable theatrical life. In some of their Coliseum collaborations, notably the 1982 "indoor" *Dutchman* and the 1987 *Lady Macbeth of Mtsensk*, this team has through sheer exuberance threatened to bursts the seams of the theatre; here, they have found a "theatre" big enough to sustain their love of theatrical animation.

Yet the most most remarkable feature of this production is that, in spite of all its showbiz elements, the action is concentrated to focus attention exactly where it should, on the leading players. Bregenz offers multiple casts for its crowded Wagner schedule; on this occasion I caught Robert Hale (Vanderdecken), Linda Plech (Senta), Hans Tschammer (Daland), Wolfgang Schmidt (Erik) and Donald George (Steersman), and without exception marvelled at the intensity and detailed physical control of their acting. At a distance their facial expression may not be visible, but their "speaking" sharpness of physical posture certainly is.

The Bregenz amplification, which in directionality and fullness of tone makes Harvey Goldsmith's Earl's Court *Carmen* set-np seem like the Earl'a Court tube-station pnblic-address system, showed alike the beauty and genuine Wagnerian power of the musical performance. Mr Hale, Covent Garden's most recent Jokanaan, has become a Heldenbariton of notable distinction, with tone not perhaps as solidly handsome as that of his compatriot James Morris, hut much more interestingly deployed; Miss Plech, a native Austrian, has a soprano limited in colour resources hut appealingly clear and clean in line.

Under Ulf Schirmer the Vienna Symphony Orchestra (the festival's resident band, concealed within the stage) and the chorus (townspeople alongside visitors from Vienna and Sofia) played and sang with unstinted fervour. The performance was given without break, paced with utter naturalness, and — it seemed — gripped by the same sense of once-in-a-lifetime inspiration that suffused the staging.

★

On Bregenz's second opera-stage — more conventionally enclosed within the Festspielhaus that forms part of the Seebühne complex — there is a revival of last year's *Samson et Dalila*, produced by the first of Bregenz's British directorial talents, Steven Pimlott. David Murray'a review of the original praised it generously at the time, and I subscribe in every particular to his enthusiasm.

Indeed, I exceed it, since (unlike my colleague) I admire the work itself, and find that all its best features are highlighted by this severely beautiful new-look, stripped down to the same starkness that Pimlott's designer, Tom Cairns, found for the WNO-Opera North *Trojans*. (Why doesn't the ENO borrow this *Samson* production?) Carlo Cossutta, essentially (in spite of occasional tonal loosening) the same sympathetic, generous, free-voiced dramatic tenor that Covent Garden audiences used to know and love, is again Saint-Saëns's hero: he provides the evening with nobility, and a true emotional centre.

Any festival that can offer two such original, integrated, honest, dramatically urgent productions side by side demands to be taken seriously. Next year Bregenz will revive its outdoor *Dutchman*, while indoors there will be a new production of Catalani's *La Wally* by yet another Bright Young Brit, Tim Albery.

Max Loppert

The Bartered Bride

COVENT GARDEN

The selection of works that the Komische Oper has brought to London has been cleverly devised. The company is shown, Janus-like, facing in both directions — back to the past with its famed Felsenstein revival and into the future with its two Harry Kupfer productions, including *The Bartered Bride*.

The Smetana is hy no means an unexpected choice, for it follows in a long tradition of German interest in the opera. (Almost half the extant recordings of the piece are in German translation.) Indeed, one of the salient points of the Komische's performance is that it is sung in a way thet shows the cast expect the audience to understand every word and it is only unfortunate thet the language is again German.

Happily, though, Kupfer has seen to it that he tells the story of the opera in a manner clear to all, without any of the extreme slants that his avant garde reputation might have solicited. There have heen other versions which trip more lightly through the scenes of dance and comedy, hut Kupfer — amusingly — does include a starring role for an ohliging pig, who is always happy to swallow unwanted marriage contracts.

For the rest, this is the kind of detailed, strongly rehearsed show that might expect these days from ENO (even if their own production a few years ago was actually rather more colourful). It is a world of real people, from the cleverly-observed individuals who make up tbe excellent chorus to Sabine Paszow, whose attractive and very human Marenka leads the cast with style. Her aria, too, was sung with just the right streak of metal.

Unfortunately, not all tbe soloists share her vocal accomplishments or her ability to wrestle with Kupfer's body language and come out on top. Michael Rabsilber was a hefty Jenik, in the German tradition of heavy tenors in the role. Andreas Conrad's Vasek is only half bashful and soon gets up to things with Marenka tbat most Vaseks would be embarrassed to dream about, and the Kecal of Hans-Martin Nau was unexaggerated, but gruff.

The main residue of Teutonic heaviness was to be found in the pit. As at the Offenbach on Monday, the orchestral sound was distinctly middle-heavy, no douht emphasised by the players having to cope with an unaccustomed acoustic, while Rolf Reuter is no equal to the best of his Czecb predecessors in finding the score's lightoess and wit.

For those who wish to dip a toe into the new wave of East German opera production, this is the show to choose. The last production, *Orfeo ed Eurydice*, is still to come, but the advance photos suggest a controversial evening to be preferred by the adventurous, ready to undergo total immersion.

Richard Fairman


Sabine Paszow: leads in style as a very human Marenka

ARCHITECTURE

The story behind the creation of a masterpiece

Biography is one of the best forms of reading on holiday. There is more time to immerse yourself in the detail of someone else's life — and to comfort yourself that even geniuses have problems.

Can the biography of a new building make interesting reading for the layman? I think that Stephanie Williams's new book, *Hongkong Bank: The Building of Norman Foster's Masterpiece* (Jonathan Cape, £40), demonstrates that there is rich drama and suspense in the creation of a great new corporate headquarters. But, like the building itself, the book is cool and objective while dealing with important architectural issues.

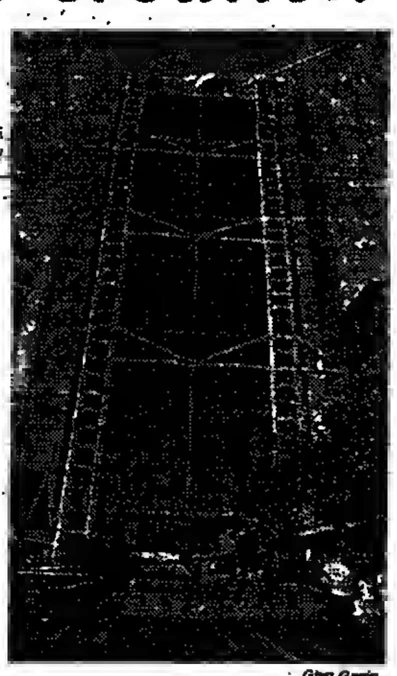
It was in 1978 that the Hongkong and Shanghai Banking Corporation embarked on the process of building a new head office in Hong Kong that would be not just a prototype, but the most advanced office tower in the world. Norman Foster was 44 when he won the competition and was well known in Britain as a leader in the field of the rational development of building components.

I well remember talking to him for a radio interview around the time of the Hongkong competition about his puzzlement over the fact that it was easy to buy an incredibly sophisticated motor car off the peg, hnt almost impossible to buy, for example, an efficient and well designed kitchen. He always went back to first principles and he was always ready to tackle the manufacturers of components and take them on a journey of design discovery.

There is no doubt about the talent of Norman Foster; he has always been way ahead of his contemporaries with whom he is sometimes compared. He has an austere need to explore things from their sources: he could have been a great scientist, or discovered the cure for any number of fatal illnesses; instead he chose architecture.

This book is not strong on what I would call biographical meat. Foster is taciturn and technical when you first meet him and the fact that he struggled from seemingly remote origins to his present eminence is of great interest. But Miss Williams concentrates upon unravelling the complexities of the erection of this HK$5bn (£385m) building. It is more than just the story of the world's most expensive office block: it is an epic story of creation.

It is necessary to read a little between the lines to understand the way the Foster and his colleagues work. They persist, in every job large or small, to innovate in design terms. They have brilliantly extended the technical boundaries of building construction. Sometimes they have failed; the failures have been aesthetic and technical. The Sainsbury Centre at the University of East Anglia is spatially triumphant inside, but it has also needed much repair and renewal. Foster has undoubtedly been blessed by clients willing to pay for progressive design and that is always heartening. The detailed account of the debate over costs and the supply of steel for the Hongkong Bank is revealing and terrifying.


Glyn Genin
Foster's Hongkong and Shanghai head office

This book makes one thing very clear indeed. Although Norman Foster had the ideas and the grit to see them through very difficult moments, he would have been utterly lost without his team. There are some very tough guys in the background of this story and it is crystal clear that without Ove Arnp'a intense work the Hongkong Bank would not exist.

That is what is rewarding about Miss William's book — she is scrupulously objective. She admires Foster, as I do. But this is no hagiography. The bank is not above criticism. I was left wondering why it all has to be so difficult — the struggles are enormous.

You feel at the end of the book that you have helped to build the pyramids, not just another bank. And of course that is the point. The Hongkong Bank is one of the great towers of the 20th century. It is a masterpiece, as mnch of negotiating skills as of design.

Convincing clients that the architect is often right is one of the great problems of today. It all depends on the quality of the architect, hut this book shows the real quality of all the supporting players, too. Should clients read this book? It may them put off the idea of hnilding anything, ever, but equally it may inspire them to try harder for architecture of the highest quality. The book is elegant in itself, calmly written with superb illustrations and drawings.

★

Another biography I have enjoyed is a more conventional slice of architectural history timed to celebrate the tercentenary of the hirth of William Adam: *William Adam 1689 — 1748: A Life and Times of Scotland's Universal Architect* by John Gifford (Mainstream Publishing of Edinburgh, at £19.95, paperback £12.95). There is also an exhibition at the Edinburgh Festival that portrays the work of this lesser known Adam.

William was the father of James and Robert and the leading architect of early Georgian Scotland. He was also the author of *Vitruvius Scoticus*, an almost forgotten source of designs for houses in Scotland and Ireland. Mr Gifford is in charge of something called the Buildings of Scotland Research Unit at Heriot-Watt University, which is slowly producing the "Pevsners" for Scotland. He is agreeably nationalist about William Adam and shows clearly that he was much more than just a provincial follower of English architectural fashion. There is a good account of the agricultural background of 18th century Scotland that provided the means for feudal expansion and the building of some remarkable houses.

William Adam was responsible for some of the finest Scottish houses. Hopetoun, Duff, Arniston and the House of Dun are his major creations, but the recently restored pleasure pavilion of Chatelherault shows that he could play brilliantly in the minor key too. Soon it *will be time for anniversary exhibitions* abont the other Adams, which is why this book about the root of the family is important.

Colin Amery

Schnittke

ALBERT HALL/RADIO 3

Since the Russian composer Alfred Schnittke suffered a stroke four years ago, he seems to have become more prolific than ever. He still slips as easily, and as eclectically, from one idiom to another at a moment's notice; but we have to come to terms with the fact that very little of thet seems to be parody.

Though Schnittke bears all the marks of a composer deeply beholden to late Shostakovich, the unmistakable anger and bitter irony in Shostakovich's "citations" always set them apart from his direct utterances.

With Schnittke, hy contrast, the inverted commas disappear: the mnsical styles of many periods and places are equally grist to his mill, natural sub-sets of his post-modernist vocabulary.

When a macabre waltz turns up, or a 19th-century funeral march — as they do in his recent Viola Concerto, played by its dedicatee Yuri Bashmet in Thursday's Prom concert — caricature is not the point. Earlier Schnittke experiments (he discovered contemporary Western music only in the 1960s) suggested otherwise, merely because we assumed that his violent clashes of surface-style must be ironical.

The watch word of *our* postwar music, after all, had been strict theoretical integrity. But there's no comparable lust among Soviet composers for an overriding theory: no doubt they *rate original*, cogent expression and the avoidance of banality as highly as anyone, hut they would never have bought the Darmstadt notion that credit-worthy new music must he demonstrably consisteot in the latest musicological terms.

The Concerto that Schnittke has composed is hardly distinguishable from the custom-hullt vehicle for Bashmet, who by general consent has no peer among concert violists. He made opulent sounds from Schnittke's paper-sketches, and found forceful sense in every phrase. The material is audibly "consistent" (haunted by a double-stopped minor ninth, usually with the viola's bottom C as base); hut until we hear another violist in the piece, there's no knowing how far its dramatic coherence — utterly persuasive here, as BBC1 viewers can discover this Friday — depends upon an empathetic star soloist.

Not only does it offer him (or eventually her) deep, ruminative cadenzas in the pungently acerbic manner of Bartók, and bursts of virtuoso sawing too, but long-breathed eloquence which often carries across radical fractures of idiom — ripe Mahler, spare Webern, salon-Romantic Spohr, Impressionist washes. No wonder Bashmet claims it to he the summit of *concertos for his instrument*: he hoasts *par excellence* the musical personality to weld its intrepid variety into a compelling dramatic elegy.

Indeed, by comparison every other viola concerto I know sounds gingerly about the instrument's expressive range. I should anyhow wager that Schnittke's score is rich enough to generate many individual readings, and that we shan't have to wait long for them.

Mathias Bamert conducted the BBC Symphony with wbat seemed faultless sympathy; he also led a good-humoured account of Prokofiev's "Classical" Symphony (short on *élan*), and later a soberly felt reading of Chaikovsky's "Pathétique."

David Murray

ARTS GUIDE

August 4-10

MUSIC

London

The Proms. Works by 114 composers will be heard during this year's Promenade Concert season, which continues until September 16. Most concerts take place at the Royal Albert Hall, though St Paul's Church, Knightsbridge, and Kensington Town Hall are also used. Tickets for most concerts cost from £3 to £11, and can be booked on 589 8212, 589 9465 (10am-6pm) or 379 4444 (24 hours); promenade tickets are available only at the door on the day of the concert priced at £1.50 or £2.

This week's concerts include Royal Philharmonic Orchestra, conducted by Vladimir Ashkenazy playing Brahms, Mussorgsky and Glière (Mon); BBC Symphony Orchestra, conducted by Andrew Davis and Witold Lutoslawski playing Ravel, Lutoslawski and Berlioz (Tue); BBC Philharmonic Orchestra conducted by Edward Downes in a concert of Bax, Walton and Strauss (Wed); and the BBC Philharmonic Orchestra conducted by Valery Gergiev, playing Prokofiev, Schnittke and Tchaikovsky (Thur).

Paris

Clarinette Pascal Moragues, Gilles Henry (violin), Yves Henry, (piano). Bartok, Khatchaturian, Berg, Stravinsky (Tue) Auditorium desHalles.

Orchestre Symphonique des Jeunes en Ile de France conducted by Bertrand de Billy, Cyril Marie, (piano). Beethoven, Schumann(Wed) Auditorium des Halles.

Chamber Music. String sextuor from Lille conducted by Fabrice-Pierre, Francis Pierre, (harp). A. Tisne, N.G. Dao, Schoenberg (Thur) Auditorium des Halles.

Instrumental Ensemble da Capo: Bach, Corelli, Mozart, Vivaldi (Mon, Tue, Wed) Saint-Louis en L'Ile Church (45231825).

Summer festivals in France

La Chaise-Dieu in Auvergne, Aug 23-30 (71000116).

Saint-Jean-de-Luz, Aug 30 - Sept 16 (59260316).

Amsterdam

Mitsuko Uchida (piano). Schubert, Debussy (Tue) Concertgebouw.

Reinbert de Leeuw (piano) Satie (Thur) Concertgebouw.

Vienna

Haydn Sinfonietta, conducted by Manfred Huss. Mozart, Hummel, Beethoven. Grosser Redoutensaal. (Mon).

Camerata Sinfonia Varsovia. Dobrzynski, Spohr. (Mon)

Polish Kammerorchester, conducted by Jan Stanienda. Mozart, Rossini. Palais Schonbrunn. (Wed)

Bad Wörishofen

Ivo Pogorelich Festival. This first festival initiated by the Yugoslav pianist Ivo Pogorelich, aims to support young musicians. Among the musicians are violinist Eduard Wulfson and pianists Franz Massinger and Frederic Chiu. The Southwest Baroque Soloists are conducted by Helmut Erb. Pianist Alexei Sultanov made a very successful German debut in Munich in 1988; the Lithuania Chamber Orchestra, founded and conducted by Saulius Sondeckis, are the winners of the Herbert von Karajan foundation for the best young orchestra; while violinist Kyoko Takezawa won the International Violin Competition in Indianapolis. The Artis Quartet, cellist Antonio Meneses and his wife pianist Cecile Licad will also appear. (Mon, Tue) (08247/350253,8939). Bad Wörishofen, Postfach 1442.

Frankfurt

Bockenheimer Warte: Andre Heller's great chinese circus, performs all week.

Montepulciano

29th Festival of Organ Music, in Tuscany. 14th Cantiere Internazionale d'Arte - founded by Hans Werner Henze in 1976. *Closing concert (Sat) at the Tempio* di S. Biagio, a mass,"Argentum et Aurum" by the eclectic flemish composer, Heinrich Isaac, who spent much time at the court of the Medicis, elaborated for for four voices (Nicolas Howard, Andrew Watts, Niall Morris and Michael Harpham), organ and orchestra (the London Parnassus), conducted by Markus Stenz. Until August 14. (717092/758213).

Tokyo

Tokyo Metropolitan Symphony Orchestra, conducted by Naozumi Yamamoto. Bach, Beethoven, Beatles. Suntory Hall (Mon) (822 0727).

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Monday August 7 1989

Mergers and efficiency

BALANCING reductions in competition against claims of enhanced efficiency is one of the central dilemmas of mergers policy. This issue appears to be the principal remaining obstacle to agreement among the member countries of the European Community on new merger control powers for the Commission.

Governments now accept that some very large mergers affect competition throughout the Community and are more appropriately handled by the Commission than by national competition authorities. The worry, expressed most forcibly in recent weeks by Sir Gordon Borrie, director general of the UK's Office of Fair Trading, is that the Commission will be too easily swayed by industrial policy arguments and that merger policy, like trade policy, might be used for protectionist, anti-competitive purposes. The anxiety is a valid one and needs to be met either by tightening the rules under which the Commission operates or by institutional changes along lines suggested by Sir Gordon.

Contentious judgments

Any merger inquiry by the Commission would assess the impact of the proposal on consumer welfare, taking into account entry barriers, import competition and efficiency gains. The draft regulation provides for anti-competitive mergers to be banned unless "their contribution to improving production and distribution, to promoting economic and technical progress or to improving the competitive structure within the common market outweighs the damage to competition."

These are contentious judgments on deals which will have a profound impact on the structure of European industry. If an approved merger turns out to have serious anti-competitive effects, it will be very difficult to repair the damage.

Partly for this reason Sir Gordon believes that the Commission should confine itself to examining whether or not a merger is likely to reduce competition. The wider effects of the merger should be left to the Council of Ministers. In the same way the West German competition authorities judge competition issues only and leave public interest considerations to the Federal economics minister. In the controversial case of Daimler Benz and MBB, the aerospace concern, for example, the Cartel Office ruled that the merger would be anti-competitive, but is expected to be overruled by the Minister.

Lobbying exposure

Sir Gordon argues that the Council of Ministers is more politically accountable than the Commission and hence a more suitable body to be invested with these powers. The danger with this suggestion that it might have the effect of politicising the merger control process, exposing the Council of Ministers to the same lobbying and bargaining between interest groups that has often characterised British merger policy. It is not obvious that the Council is better placed to take more consistently pro-competitive decisions than the Commission.

In the long run the creation of an independent agency, akin to the Monopolies Commission in the UK or the Federal Trade Commission in the US, might be the right way of handling mergers at the Community level. But this would require a treaty amendment. More immediately, the wording of the regulation needs to be tightened, so that the loopholes through which an efficiency defence might be accepted are drawn more narrowly. The role of the advisory committee, consisting of officials from member states, should be strengthened. Finally, the Council of Ministers should have the power to override, by qualified majority vote, merger decisions of the competition directorate.

If there is clear agreement among member governments on the purpose of merger control and if the wording of the regulation is amended accordingly, the power to override may be used only rarely. Without such agreement, every large and contentious merger could become the subject of horse-trading between member states.

Nuclear risk and reward

THE FUTURE of Britain's nuclear power industry was by no means settled when the Government announced last month that it was reversing its decision to privatise the nine ageing Magnox reactors.

In the next few weeks, Mr John Wakeham, the new Energy Secretary, must solve some difficult problems which follow from this decision. They centre on the provisions which must be made for the newer but problematical Advanced Gas-cooled Reactors, now being gift-wrapped for sale.

The main financial uncertainty for the Magnox plant was the cost of decommissioning – a polite word for putting them on the most expensive scrap heap in industrial history. The big difficulty faced by the Government was not so much the level of costs as the vast range of uncertainty. In the last two years, for example, the official estimate for the first stage of de-commissioning the UK's oldest Magnox at Berkeley has risen by more than a factor of five to £300m. The total cost of returning the site to a "green field" appears likely to be some £500m in cash terms in 1989 values. Even though some of these costs may be deferred for up to a century the cost per unit of capacity of dismantling this station is likely to be as much as that of building a new nuclear plant in the UK and much more than the cost of building one in France.

Overtaken forecasts

Faced with such a rapid increase in cost estimates, the Government's financial advisers have naturally asked why they should be expected to believe the most recent figures, especially in an industry where actual costs have notoriously outstripped forecasts. Assigning a capital value to the Magnox plant then became a near impossibility, even after taking account of the planned nuclear levy, which will allow reasonable costs to be passed to consumers, and the Government's guarantee to meet some genuinely unexpected decommissioning costs.

The Government's decision to abandon this part of the sale was therefore the right one, though taken belatedly. The Magnox plant were undoubtedly the most indigestible part of the flotation. However, big uncertainties also surround the newer AGRs. Decommissioning is likely to be expensive, and the assumption that the plant can be "walled up" for a century before final disposal is increasingly being questioned, not least by the Parliamentary energy committee. The recent jump in the costs of disposing of spent Magnox fuel raises doubts about the cost of fuel reprocessing. Then the very poor performance of some of the existing AGRs makes estimating future income extremely difficult. The Hartlepool AGR produced only 16 per cent of its original rated output capacity last year, for example.

Insulated shareholders

The Government can now find ways to insulate shareholders from most of the risks: the nuclear levy and special Government subsidies will take care of decommissioning costs, while fixed price contracts with British Nuclear Fuels Limited will pass most of the reprocessing risks back to the taxpayer. But if nuclear power can be privatised only when all risk is stripped away, investors must accept a relatively low return on this part of their capital. It would be wrong to allow the larger generating company to make big profits by improving the AGR's performance without carrying the offsetting risk. And if the company is given a cost-plus contract for managing the Magnox stations, great vigilance will be needed to prevent it from cross subsidising its other nuclear business. If the public is required to plough unknown quantities of cash into the industry it must also harvest any unexpected gains.

The best way of achieving this would have been to keep all the nuclear assets in a publicly owned company for the time being. Since the Government has opted for a compromise, it will need to ensure that all contracts with National Power give explicit recognition to the extent of public financing. And it must speedily publish the nuclear cost estimates which caused the change of heart on Magnox. Indeed the main, if not the only, benefit of privatising nuclear power may be that the true costs will at last be flushed out into the open.

Patti Waldmeier examines the impact of US sanctions and the case for extending them

Albertina Sisulu, the wife of jailed ANC leader Walter Sisulu, with President George Bush at the White House

A false dawn for South Africa

THE struggle against apartheid may be taking place thousands of miles from America's shores, in a country which many Americans could not locate on a map. But apartheid is seen very much as a domestic issue in the US; and the new Administration in Washington seems keen for it to remain so, whatever the implications for US foreign policy in the region.

That policy is now being redefined by the Bush Administration. But it has already suffered what could prove to be a major setback: the cancellation of the proposed visit to Washington of Mr F.W. de Klerk, the National Party leader and most likely candidate to become South African President after elections in September.

The failure of the visit may have done serious damage to US-South African relations, and could encourage pro-sanctions campaigners at just the time when new sanctions hearings are beginning in Congress.

By now, if African experts at the State Department had had their way, Mr de Klerk would have met his third major Western leader in two months, following a June meeting with British Prime Minister Mrs Margaret Thatcher and West German Chancellor Helmut Kohl. President Bush, for his part, would have fulfilled his commitment to test the widest possible range of opinion in South Africa by adding Mr de Klerk to the list of South Africans he had received at the White House.

That list already includes anti-apartheid leaders such as Mrs Albertina Sisulu, the wife of jailed African National Congress leader Mr Walter Sisulu, Archbishop Desmond Tutu and the Rev Allan Boesak. It now seems unlikely that it will include Mr de Klerk in the near future: for if Washington found it difficult to package a visit from the National Party leader for domestic consumption, how much more difficult might it find an official visit from the new state president.

Officially, Pretoria – not Washington – cancelled Mr de Klerk's planned visit. The pressures of South Africa's whites only election campaign were said to preclude such a trip. However, it seems certain that Mr de Klerk would have found a way around his campaign commitments if he could have been assured that his visit to Washington would include an audience with President Bush, and not only Secretary of State Mr James Baker.

No such assurance was forthcoming from the White House – in spite of the eventual support of both the State Department and National Security Council for the visit – and Mr de Klerk cancelled rather than risk being snubbed when he arrived.

Whatever the real reasons for the cancellation – fear of the domestic repercussions of too close an association with Pretoria, or simply the new Administration's failure to understand the seriousness of the snub – it appears to have given the pro-sanctions lobby a much needed boost to its morale.

For the only publicly apparent reason for the Administration's second thoughts about Mr de Klerk was a protest letter to President Bush from 100 Congressmen. True, a presidential meeting had been anything but a foregone conclusion even before the letter; indeed, infighting within the State Department over the visit had delayed a decision for so long that issuing an invitation would have been a last minute event in any case.

But the Congressional protest seems to have crucially tipped the balance. In the interests of his much-vaunted bipartisan approach to foreign policy, President Bush appears to have decided that 100 Congressmen were 100 too many to anger over an issue which was not central to US interests.

Prior to the news of the de Klerk cancellation, the drive to impose further sanctions on South Africa appeared to be flagging in Congress.

Media censorship in South Africa and the much reduced incidence of violence in South African townships had ensured that American television viewers were seldom confronted with the effects of apartheid.

Markedly improved prospects for regional peace, including an independence settlement in Namibia, had lessened pressure for punitive action. And the Congressional verdict on the effect of sanctions imposed under the 1986 US Comprehensive Anti-Apartheid Act was far from unanimous, even among committed sanctioneers.

Reaching any firm conclusions on the economic effect of sanctions, let alone their political impact, is extraordinarily difficult. Indeed it is possible, in Washington, to find sensible people who argue that every significant erosion of apartheid over the past three years has been the effect of sanctions – and equally easy to find sensible people who argue quite the opposite.

Mr Randall Robinson, the head of the influential anti-apartheid lobby Transafrica, does not doubt that sanctions have furthered the cause of change in South Africa. "South Africa is in a tough way and it is in a tough way in large part because of sanctions," he argues; if the effect has been limited, that is because the sanctions themselves are limited.

Sanctions have put a ceiling on economic growth, burt business confidence and deprived South Africa of critical foreign capital; and the pro-sanctions lobby would argue that all of these factors have positively influenced the behaviour of the Pretoria Government.

Opponents of sanctions, including members of the current Administration, are doubtful. "Obviously sanctions have had an impact; but did they move the South African body politic towards its goal? I'm not so sure," says one US official. "South Africa has any number of reasons to wish to escape from its current impasse; sanctions are only one of them."

The impact of disinvestment by US companies is, if anything, even more difficult to assess. In the case of disinvestment, local public pressure in the US has played a much larger role than legislation – though Mobil Corp, which pulled out last April, cited Congressional action on dual taxation with South Africa as the reason for its decision. But despite the large number of US companies leaving South Africa – some 140 since 1986 – the main impact, ironically, seems to have been to enrich white South African businessmen who have picked up foreign assets at fire sale prices.

Whatever their reservations, the bottom line for many in Congress is that sanctions and disinvestment are better than nothing – even if all they do is demonstrate US disapproval of South Africa's policies, and increase Pretoria's sense of isolation.

The Congressional aide to one Senate Democrat puts the dilemma this way: "Even liberal Democrats feel a bit uncomfortable about sanctions; but there is so little else we can do."

None of this adds up, however, to any real likelihood that Congress will impose the much harsher sanctions included in the so-called Dellums bill now before the legislature. The bill calls for comprehensive and multilateral sanctions against South Africa, and would prohibit all US investment in and military or intelligence co-operation with South Africa.

It would also include the energy sector in trade sanctions, and increase monitoring of trade and investment as well as including other punitive measures.

Virtually assured of passage in the House of Representatives, it is much less likely to command the 60 or so votes needed to overcome a Republican filibuster in the Senate, still less the two-thirds needed to override a Presidential veto.

Indeed, the anti-apartheid lobby itself has done little to further the bill's chances of success: during a visit to Washington in May, Archbishop Desmond Tutu and the Rev Allan Boesak, South African pro-sanctions campaigners of long standing, were at best ambivalent on the issue of comprehensive sanctions.

They are understood to have told Mr Dellums that they did not support his bill, and called instead for a more targeted approach to the issue, with the emphasis on financial sanctions.

But more important than any apparent change of heart on the part of the internal sanctions lobby in South Africa, it was a marked alteration in the rhetoric of the Administration itself which seems to have defused the sanctions issue.

In recent months, the new Administration has gone to great lengths to persuade Congress both that it cares about apartheid – something which the previous incumbents never managed to do – and perhaps more crucially, that it cares what Congress thinks about apartheid.

Clearly, the Administration wishes to avoid a sterile political debate about sanctions with Capitol Hill – the sort of breakdown in relations which led Congress to impose the Comprehensive Anti-apartheid Act in 1986, in spite of a presidential veto.

Through a programme of earnest consultations with Congressional leaders, as well as selected invitations to black South Africans to visit the White House – what one opponent of sanctions refers to as "lighting candles for the victims of apartheid." – President Bush seems to have got the Congress on-side, at least for the moment.

The extraordinary recent admission from the Assistant Secretary of State for Africa, Mr Hank Cohen, that sanctions had had an impact in South Africa (though he opposed the imposition of further measures), appears to be part of the same process of keeping Congress sweet. The cancellation of the de Klerk visit will be seen as a further concession to pro-sanctioneers.

The new, less acrimonious relationship created with Congress, coupled with Congressional willingness to give Mr de Klerk at least some chance to fulfill the high expectations he has built up for himself in the West, may lead to a pause in the sanctions drive which could conceivably last until campaigning begins next spring for US mid-term elections.

The most radical action likely before then – and even this is far from certain – would focus on a non-binding Congressional resolution proposed by Democratic Senator Paul Simon, apparently with the approval of the State Department. It calls for stricter implementation of the 1986 sanctions. And, more importantly, it calls on the US to seek mandatory United Nations sanctions for a period of 12 months – the sort of drastic measure which would no doubt send an important signal to Pretoria, but could well prove very difficult to enforce.

But perhaps the most potentially damaging action now under consideration – short of the sweeping measures included in the Dellums bill – would involve the imposition of further financial sanctions on South Africa.

The drastic reduction in new bank lending to South Africa, which followed the 1985 decision by Chase Manhattan Bank to pull out of the country, has severely restrained economic growth over the period. Pro-sanctioneers are now focusing their efforts on disrupting the renegotiation of billions of dollars of South African debt due to begin next year – an approach favoured by Archbishop Tutu and Mr Boesak, who have written to foreign banks to urge them not to reschedule and have asked Congress to pass legislation forbidding renegotiation.

Congressional hearings began last week to explore the implications of rescheduling. But thinking on the issue is as yet at an early stage, and some banks have been pre-empting sanctioneers by converting short-term debts to medium term loans before the 1990 rescheduling round.

Dr Chris Stals, South Africa's chief debt negotiator, said last month that short-term debts would be reduced to \$8bn by mid-1990 as a result.

Events on the ground in South Africa could, of course, change the dynamic in the Congress at any moment. But for now, Republican Senator Nancy Kassebaum – who voted for the 1986 sanctions and whose support for further measures could prove crucial in the Senate – puts it this way: "We might look at more targeted initiatives, if indeed more steps need to be taken. But there is a window of opportunity open in South Africa now. Our focus has to be on what we can do to help them now."

OBSERVER

August, 1989

(Two middle-aged people talking on a bench in one of the better London parks – St James's or Holland. They might be civil servants. It doesn't really matter which one says what; or the sex.)

"Funny summer, this year. In England, I mean. Well, London."

"Funny peculiar, or funny ha-ha?"

"Don't know, really. Both, either. Neither. Funny as if you feel something's going to happen and you don't know what it is."

"Go on."

"The weather, the water, the strikes, the cricket, the inflation. All those beastly things that we thought had gone away, and now they're coming back. And all those things that we used to think we were good at, and now we've found out we're not."

"Funny how we used to be taught that we should never drink the water in France or Italy. Now we know that's what *they* all thought about here."

"And they were right. You know, when people started talking about listeria, I thought they had a lisp and really meant some kind of plant."

"Odd about Europe altogether. I thought it was all over. After all those years, we'd joined, become members of the Club, were beginning to feel at home. Now we start quarrelling all over again. Strange country, Britain."

"Or strange place, Europe. Did you know that 'Look Back in Anger' is being revived in London tonight?"

"Yes. Do you think that's symbolic?"

"It certainly seemed a great symbol at the time. Angry young men, break with the past, end of empire, Suez, Hungary, 1956. All of that."

"A lot of that's subconscious. It was performed before Suez happened. He wrote it in 12 days in 1955, and no one wanted to put it on. The Financial Times was almost the only daily paper that liked it. The Sunday Times said it was 'entirely unmemorable'."

"But then there was Kenneth Tynan in The Observer – in the days when there were posh Sunday newspapers, and only two of them. He wrote that nothing on the English stage could ever be quite the same again. He seemed to mean English society as well."

"True, it was drawing-room comedy transferred to the kitchen sink. That was why it was so modern. But there was one line in it that seemed to sum it all up. It was Alison talking to her father. He'd spent 40 years in India and couldn't understand why she had married her husband, Jimmy – the man who went to a white-tile university, not even red-brick.

"'You're hurt because everything is changed,' she said. 'Jimmy is hurt because everything is the same. And neither of you can face it. Something's gone wrong somewhere, hasn't it?'"

"And that's what you think about now?"

"Not entirely. It just hasn't gone quite right. I mean, nobody seems to agree on anything any more. We don't even know if we're better educated."

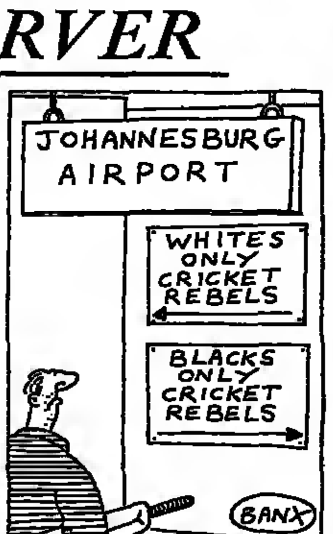
"Cheer up. The stock market's very high."

"Yes, but that makes me nervous."

"Another crash?"

"No, not like the last one. People learn, I suppose. But there's all this money chasing – I was going to say – too few goods. Takeovers, LBOs, unbundling. All those new terms. At first I assumed that LBO stood for some new orchestra."

"London and Birmingham?"



"And all those people in the City, getting out of their depth and losing their jobs. Some of them deserved it, but all of them?"

"You're beginning to convince me. Take the cricket. You can't criticise all those players going to South Africa for the money without attacking Lord King for his salary as well. And that's what's starting to happen. Nobody knows what a just reward is. It seems to be we've been here before. It used to be called the politics of envy."

"Ah, yes. South Africa. We never really got out of that either. We used to think: 'into Europe, out of Africa.' It didn't work like that. We still have the residual responsibilities."

"And Honk Kong."

"Hong Kong indeed. Why is that we have all these legacies? Why can't we be more like France?"

"Oh, come on. We're talking ourselves into a depression. Do you really think that nothing has changed for the better?"

"Only when I listen to the news."

"Inflation figures on Friday."

"We'll just have to keep a stiff upper blip about that."

"Let's go to the theatre."

Other Behan

■ Dominic Behan, brother of Brendan, died last week. While he tended to be overshadowed by the talents of his elder brother, Dominic was an accomplished playwright and songwriter in his own right. Many think he was more quick witted than Brendan. A story is told of Dominic's arrival in Spain in the bad old pre-democracy days.

The reporters at the airport upset him, while he was a little the worse for drink, by mistaking him for his brother. "Why have you come to Spain, Mr Behan?" they asked. "For Franco's funeral," came the answer.

Dominic was put on the first plane out.

Plessey sails

■ Plessey seems determined that, if it is going to go down, it will go down gracefully. Just as the Department of Trade and Industry was clearing the way to allow GEC and Siemens to renew their takeover bid, invitations went out for a Plessey press cruise on the Solent. The sailing barge, Kitty, is scheduled to carry Plessey's colours into the sunset on the eve of next month's Royal Navy Equipment Exhibition. Should events in the interim change those plans, GEC could always use it for torpedo practice.

Feedback

■ From a New York College magazine: "Many people think Alice in Wonderland is Lewis Carroll's best work, but I prefer his wonderful light verse in The Hunting of the Snack." Not to be confused with his more substantial Through the Cooking Class.

Martin Wolf argues that European economic and monetary union may exacerbate regional imbalances

The tricky aerodynamics of Emu

Historical experience suggests that in the absence of countervailing policies, the overall impact [of economic and monetary union] on peripheral regions could be negative.

Delors Committee Report on Economic and Monetary Union

The most obvious difference between the member countries of the European Community and most other industrial countries is in their labour markets. They have higher rates of unemployment than most other industrial countries; their unemployment rates have tended to rise, cycle by cycle, for some 20 years; and many of them show large and persistent regional differences in rates of unemployment. In view of this, one would presume that any ambitious proposal to develop the EC would try to avoid making an already bad labour market situation still worse.

It would be wrong to presume so. The programme to complete the internal market of the EC need not, it is true, have any deleterious effects in this regard and could well prove beneficial, as is suggested by the Cecchini Report on the benefits of the internal market programme. Economic and monetary union is another matter. Emu will be beneficial only if it is combined with a vigorous attempt to improve the functioning of the labour market throughout the EC. A careful scrutiny of the draft Charter of Fundamental Social Rights suggests, however, that precisely the opposite is what will happen.

It is not that the Delors Report is unaware of the problem. It recognises that the economic disequilibria which now appear in the balances of payments of member countries could then show up in regional decline. "Measures designed to strengthen the mobility of factors of production and the flexibility of prices," it says, "would help to deal with such imbalances."

Quite so, but such measures fall largely in the category of wish dreams. The main policy recommendations relate, instead, to fiscal transfers and EC-directed investment in physical and social infrastructure. While these should be a part of any solution, they cannot possibly be all of it. If they were, southern Italy would be thriving today.

But what precisely will it mean for the present member states to become regions within an integrated west European economy?

To understand the potential difficulties, the starting point must be existing member states. The disturbing fact is that the far smaller and more homogeneous European states have worse regional problems than does the US.

According to the latest OECD Employment Outlook, in the states of the US whose rates of unemployment fell into the highest quartile the average rate of unemployment was 8.4 per cent in 1987; in the lowest quartile it was 4.1 per cent; and the national average was 6.1 per cent. In the same year the corresponding figures for regions of West Germany were 8.5 per cent, 3.8 per cent and 6.2 per cent; for France 12.9 per cent, 8.6 per cent and 10.5 per cent; for the UK 13.6 per cent, 7.6 per cent and 10.2 per cent; for Italy 19.4 per cent, 6.6 per cent and 11.2 per cent; and for Spain the almost incredible figures of 27.7 per cent, 14.7 per cent and 20.1 per cent.

Such differences in regional rates of unemployment mean that in any economic expansion some regions will be overheating while others are still in recession. Thus large regional differences in unemployment put a floor to the national rate of unemployment, a perennial problem whose effects can be seen in the UK today.

How is it possible for small European countries to have regional problems that are worse and in some cases far worse than those of a continental economy like the US? There are two reasons: first, wages are set to a far greater extent than in the US on a national level and, second, labour (particularly unskilled labour) is relatively immobile, largely because of mistakes in housing policy.

That the European problem is particularly deep-seated is revealed by the close correlation between the regions with high unemployment today and those with high unemployment 15 or more years ago. The OECD report shows, for example, that in the case of the US there is no such correlation.

This is much less true of the European countries. In the cases of the UK and Italy, in particular, the correlation between the regions with high unemployment today and those with high unemployment in the 1970s is almost perfect. While less true of France and West Germany, the correlation in both cases is still far higher than for the US.

Such deep-seated regional problems reflect the failure to adjust to the regionally-differentiated effects of economic change. To take the example of the UK, Scotland and Northern England have been relatively depressed regions for almost a century, as the 19th-century staple export industries – textiles, ship-building and coal – have gone into decline. The shift in the UK's overall comparative advantage has had powerful regional effects because of the regionally uneven distribution of the industries in question.

The adjustment mechanisms for a region are not different from those of a country, with two exceptions: nominal exchange rates are fixed, while labour should find it easier to move within a country than across national borders. But the initial effect of a trade deficit is essentially the same: the decline in export income will have a multiplier effect on the regional economy. Failing a fully offsetting capital inflow, there must then be some combination of declining regional expenditure and changes in both industrial structure (towards production of regional exports and import substitutes) and in the pattern of expenditure (away from imports and exportables).

As regional demand declines, real wages should fall (assuming, quite reasonably, that labour is the most important relatively immobile factor of production). Emigration of labour and immigration of capital should follow. The latter will support regional expenditure in the short term and expand production of goods that can be sold outside the region in the long term.

The more integrated is the region into the wider economy (particularly by the transport infrastructure), the easier it will be to find substitute production and the smaller the adjustment that will be required of the labour market. Furthermore, the easier people find it to migrate, the smaller the required change in the cost of labour.

If, however, a region is not well-integrated into the wider economy, and labour finds it difficult to migrate as well, the real cost of labour must move considerably if equilibrium is to be restored. In the absence of such adjustment, one gets the entrenched regional problems of northern England or southern Italy.

It should be stressed that the ability to adjust the nominal exchange rate is of benefit only to the extent that it makes changes in real prices (particularly the cost of labour) easier to achieve. From what has happened to the US since 1985, it is clear that nominal exchange rate changes can have large effects on such real prices, effects that could hardly be achieved in any other way.

Conditions in the US are somewhat special, but they are not that special. If, for example, the average rate of inflation in an economy were close to zero and a substantial cut in the real cost of labour were required in a particular region, nominal wage cuts would be needed. Such cuts are virtually unheard of in European economies. A depreciation would be more expeditious (but more inflationary, too).

So the loss of exchange rate flexibility must have a deleterious effect on the capacity to adjust to regionally differentiated shocks. In this respect Emu will make the adjustment problem somewhat worse.

That is not the end of the story, however, since economic integration in the EC will itself create pressures for adjustment. The internal market programme will drive prices of goods and factors of production closer together. For example, there will be a tendency for the prices of labour to converge, as production of labour-intensive goods shifts more rapidly to peripheral regions and an EC-wide market for highly skilled labour emerges.

This tendency will itself be socially disruptive. More important perhaps, its benefits – which should be substantial for the poorer parts of the EC – will be the result of the long process of economic change now under way. The danger is the benefits will be anticipated and so forestalled.

While in no way a necessary consequence of Emu, nothing is more probable than the emergence of EC-wide bargaining and EC-wide wage rates once there is just one currency. This has certainly been the experience of the existing member states. But any such move towards EC-wide bargaining and wage formation could prove catastrophic for the less productive regions.

Productivity per head in manufactures is reasonably close among countries like West Germany, France, the Netherlands and Belgium. But that in Italy is 80 per cent of the German level, that in the UK 70 per cent, that in Spain a little lower still and that in Portugal below 30 per cent of the German level.

An attempt to equalise wages in the common currency before the process of economic convergence had worked its way through (which may take a generation) would repeat on an EC-wide scale the regional problems of the member states today. Within the member states, it seems to be the premature attempt to equalise wages that is the main source of the difficulty, a conclusion that can be drawn from the fact that it is almost always the poorer regions that suffer from high unemployment, a connection that is as familiar as it is economically unnecessary.

The potential for such regional problems is also revealed by a comparison of the EC with the US. Leaving aside Alaska, income per head in the poorest state (Mississippi) was 61 per cent of that of the richest (New Jersey) in 1983. On a comparable basis income per head in Portugal (the poorest EC member) was only 20 per cent of that of Denmark (the richest) in 1987, that of Greece was 27 per cent and that of Spain was 39 per cent. Even that of the UK was only 63 per cent of that of Denmark. The EC has regional inequalities in output per head far greater than within the US.

What then has to be done to ensure that Emu does not create regional problems that could undermine the legitimacy of the whole effort at European integration?

The first requirement is greater economic integration, which is being promoted by the internal market programme. Such integration would be greatly facilitated by substantial investment in infrastructure, especially transport, as is suggested in the Delors Report.

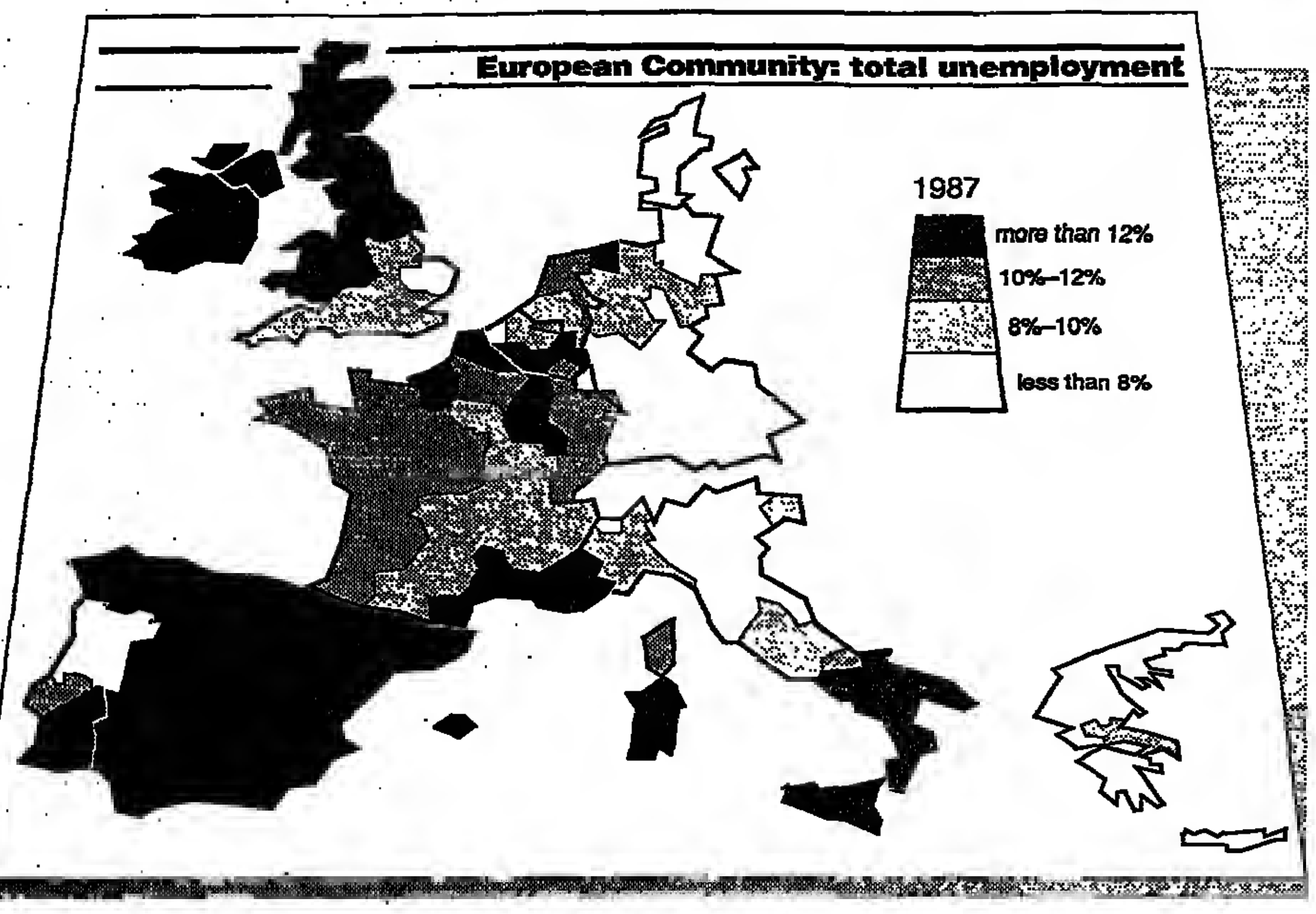
The second requirement is increased mobility of labour. This means, for example, that one element of any social charter should be the housing market, a subject entirely ignored by the present draft. It also means both the promotion of training and mutual recognition of qualifications, as is rightly recognised in the draft Social Charter.

The third – and certainly most controversial – requirement is that there must be no pressure for EC-wide common wages or working conditions, least of all under the emotive rubric of "social dumping." On the contrary, existing national bargaining needs to be reduced in scope.

The ideas of the draft Social Charter on the establishment of a maximum working week, the regulation of part time employment and the establishment of a "fair wage" appropriate to each member state are all worrying. Equally disturbing is the idea of upward "approximation" of living and working conditions that is to be brought about not by economic development but by fiat.

Emu is a noble ideal. But if it is not to be as flightless as its Australasian namesake, the principles of economic aerodynamics must be remembered. Foolishly implemented, Emu might exacerbate the existing regional problems of the EC and even add new ones, as the existing member states become regions of the wider EC economy.

The powers that be in the EC appear to believe that economic integration can sold to workers only by tempering the wind of competition to the shorn lamb. In anything but the short run, this is the reverse of the truth, however politically unpalatable this may be. What will be needed – along with much more investment in training and infrastructure in the poorer regions – is not less, but far more competition in the EC labour markets.



LETTERS

Equal behind the law

From Mr J.A. Rowson.

Sir, Your legal correspondent doubts (July 31) that we shall see many solicitor advocates in the High Court before the turn of the century. He sees it as inevitable that the Law Society will have to draft training rules which would have this result.

But this would be contrary to the Government's belief, expressed in the white paper, that the public should have the widest possible choice among properly qualified advocates.

Perhaps your correspondent sees the new body of four senior judges, in addition to the Lord Chancellor, whose concurrence with the rules will be required, as able to enforce such a delay despite being required to take account of competition implications.

The legal reforms should create the possibility of two lawyers rather than three in some High Court cases: the solicitor combining his own role with that now performed by one of the two counsel frequently required. In smaller cases, there should be the possibility of one lawyer rather than two.

This will not be a threat to a strong, separate Bar, continuance of which has universal support, including that of my own firm. What could diminish the Bar (as implied by your correspondent) are higher hurdles for solicitors than for barristers, encouraging the former to recruit barristers (for relabelling as solicitors) rather than themselves qualifying for advocacy rights.

There can be no justification in setting more demanding qualifications for solicitors than those for barristers. Nor should there be irrelevant requirements, such as an obligation to work as a sole practitioner, to forego direct access to the public, or to observe what in practice is largely an illusory "cab-rank" rule – all as put forward by the Bar.

John Rowson,
Herbert Smith,
Watling House,
35 Cannon Street, EC4

VAT on financial services

From Mr Julian Oliver.

Sir, Eighteen months ago you published my letter pleading to be taxed. Following Richard Waters's article, "EC deals tax blow to stockbrokers" (August 2), perhaps the ranks may be swelled?

As he points out, the financial services industry is bearing an ever increasing burden of VAT through bought-in supplies which it is unable to pass on to taxable entities.

During the past year, in conjunction with our colleagues in the European Banking Federation, we have made considerable progress in winning the intellectual argument that European Community member states should offer financial service companies a "mandatory option" (mandatory in the sense that all member states must provide financial service companies with the option either to remain exempt or to be liable to VAT).

The advantages of such a scheme are substantial, to both suppliers and consumers. The supplier could deduct his input tax, thereby saving costs. The customer company would have an identified VAT-charge on its invoices rather than the present "hidden tax" in the price paid. That customer, in turn, could recover VAT costs on financial services purchased instead of suffering the "hidden tax" in his cost base.

Thus transparency would be achieved; the anomaly by which competing but differently classified services charge or do not charge VAT would be removed; and the present disparity between Germany, which allows the option at present, and the rest of the EC, which does not, would go.

We are aware of only one disadvantage: that is, that national exchequers believe that they would suffer a short-term shortfall in expected VAT revenues. In the long term they would gain – and, surely, the UK Chancellor is not short of tax revenues.

Julian Oliver,
American Express Europe,
1 Place Louise,
Brussels

Coming down to earth

From Mr W.M. Lomer.

Sir, Peter Marsh, writing about Apollo (July 15), contrasted "giant steps for mankind" and "scientific ego-trips." In his list of Government co-ordinated programmes in technology, one and one only has a direct, simple technological goal which would be a giant step for mankind.

This is the development of nuclear fusion as a source of energy, based on an inexhaustible fuel, giving rise to lower pollution than any presently available source. Ego-trips in this field were spent 30 years ago. Now, after sustained effort, we can say that the goal is attainable.

Perhaps mankind will say it is not worth the expense: let the third world do without energy; or let us submerge in our CO2 blanket. Perhaps it is not going to be quite as cheap as fossil fuel in 2050. Perhaps this, perhaps that . . . But fusion is a closely targeted world effort on something of permanent value to mankind. Its value is not in spin-off, but in its central objective. That makes it different.

W.M. Lomer,
Director, Culham Laboratory,
Abingdon, Oxfordshire

Designed for confusion

From Miss Kathy White.

Sir, It would not be fair to Alice Rawsthorn to accept without comment the director of the Design Council's defensive rebuttal (Letters, July 24) of her assertion that it has gone from crisis to crisis.

Recent times have seen the departure of Lord Snowdon and the wholesale loss of the council's senior staff. The council has promised to match the Department of Trade and Industry's grant of £6.2m with funds from industry sponsorship. Delay in finding these funds has resulted in continued postponement of the Young Designers' Centre: the proposed replacement for the Design Centre Shop.

The council has abandoned its export and promotional function on behalf of British industry in favour of the overcrowded area of design education. Public perception of the role and accountability of the council is understandably confused, and its activity looks to be not so much in crisis as to have met its nemesis.

Kathy White,
Strega Art,
Clarence Cottage,
Hampton Court Road,
East Molesey, Surrey

'The UK would be better off without local government'

From Mr Stephen Garvin.

Sir, Are the pages of the Financial Times the right place for political cant of the variety served up by Michael Prowse (Lombard column, July 28)?

If it is all right for people to pay "the same flat charge" for a TV licence, a health service prescription, a rail or bus journey, supply of gas, electricity or water, *and so on*, why *is it* "morally indefensible" to pay thus for the removal of dustbins, use of the public library or any of the public services?

Between Mr Prowse's question-begging opening and his conclusion, in the place where one expects to find argument, there is nothing but a flourish of standard rent-a-phrase. "Nurses with small incomes and tiny flats will be paying the same as millionaire landowners." "My own view," concludes Mr Prowse, "is that *some form of local property tax* is essential, but that it could be supplemented by a progressive income-tax."

Years ago I served on the London County Council Education Committee, the predecessor of the Inner London Education Authority. My experience was that on everything of any importance the Secretary of State bore the responsibility and had the last word.

Similar conditions prevailed in the other council departments. I therefore formed the opinion that the country would be better off without local government, leaving it to the departments of state responsible for the duties devolved upon local authorities to carry out these duties on their own account.

It was a pity that the entire incubus was not removed when the Greater London Council (GLC) and the larger units were abolished. Had that been done, the problem of local authority finance would by now be revealed as the phoney *question it is*.

Stephen Garvin,
Little Bricklehurst,
Stonegate,
Wadhurst, East Sussex

FINANCIAL TIMES
Monday August 7 1989

Deborah Hargreaves in Chicago

Uncertain future in windy city

THE LAST two years have not been easy for Chicago's futures exchanges as crisis and controversy have beset their markets. But last week, by far the most serious blow fell when the Government indicted 46 traders at the two exchanges.

The Government chargee grew out of a two-year undercover futures fraud probe by the FBI and could just be the first round of charges to arise from the continuing investigation.

Customers were regularly cheated as brokers and traders conducted widespread schemes to steal and skim profits, the indictments allege. And Chicago has been forced once again on the defensive as critics call for stricter policing of its trading floors.

The windy city's futures exchanges have waged long-running public relations campaigns in a bid to convince the nation's lawmakers that their esoteric markets must remain unmolested if they are to fulfil their crucial role in international risk management.

But, in the wake of the FBI's operation, the exchanges realise they will be lucky to escape the imposition of any tighter controls. The House of Representatives has already passed a bill that would ban the controversial practice of dual trading - the ability of brokers to trade both for customers and their own profit - in most futures contracts.

In announcing the Government's charges on Wednesday, Mr Richard Thornburgh, US attorney general, stressed that Chicago's exchanges themselves were in no way implicated in the allegations. Nevertheless, exchange officials moved swiftly last week to grasp the initiative in the debate. They underlined moves they are already making to toughen up on trading abuse.

Mr "Cash" Mahlmann, chairman of the Chicago Board of Trade, was visibly shaken when he appeared at a press briefing to point out the CBT's efforts to tighten its own regulation. He said the charges were cause for "grave concern" since they "reflect on us all."

The sort of trading abuses uncovered by the FBI's two-year investigation were not detectable by normal exchange surveillance procedures, according to the industry regulator, the Commodity Futures Trading Commission.

But Mr Mahlmann believes the improvements made in the CBT's regulatory procedures would allow the exchange to pick up almost any fraudulent practices.

Since news of the FBI probe was first leaked in January, the CBT has spent $1m to upgrade its complex computer system for reconstructing trades.

The CBT now monitors each one of the thousands of transactions made daily at the exchange – previonsly it reviewed 10 per cent of its volume. Its surveillance department has grown into the second largest in the exchange's bureaucracy after 25 extra staff were hired.

In addition, traders will be required to stamp the time of any transactions they make onto their trading cards within 15 minutes. The trading cards - the exchange's only record of trades made - will be collected every hour instead of at the end of each day.

This will reduce the opportunity for brokers to boost their profits by changing the times of trades recorded on their cards - a practice the Government alleges was prevalent on both futures trading floors.

Both of Chicago's exchanges have raised the fines they will levy for any traders found by an internal investigation to be violating exchange rules.

Now that the government charges have been released, the exchanges will pursue their own inquiries into the trading practices of those indicted.

The indicted traders are currently still operating in the exchange futures pits, but they are being asked to refrain from filling customer orders and to trade only for themselves.

It is dual trading that has come under fire in the current crisis. Although the round of indictments handed down last week did not specifically point to abuse associated with dual trading, many critics have called for a ban on it and the conflicts of interest it creates.

The Chicago Mercantile Exchange has said it will ban dual trading unless its audit trail can reach 90 per cent accuracy in reconstructing trades.

Both exchanges are rushing to preserve the integrity that has made their markets world leaders. Mr Tom Donovan, president of the CBT sums it up when he says that without integrity, the exchange cannot exist.

Kaifu favourite to win Tokyo vote

By Ian Rodger in Tokyo

MR TOSHIKI KAIFU, a former education minister, seems almost certain to win tomorrow's leadership election in the ruling Liberal Democratic Party (LDP) and become Japan's third prime minister this year.

Two other candidates, Mr Yoshiro Hayashi, a former health and welfare minister, and Mr Shintaro Ishihara, a former transport minister, joined the race on Saturday but are expected to win only token support.

Three of the four large LDP factions have backed Mr Kaifu, 58, virtually assuring his election, although political analysts cautioned that the ballot would be a secret one and many party members were in a rebellious mood.

And an element of uncertainty lies in the decision by LDP leaders to let 47 regional representatives join the voting by the party's 404 members of the Diet (parliament). Regional spokesmen have been critical of backroom manoeuvring that led to Mr Kaifu's emergence as favoured candidate.

Whoever wins, a new and potentially exciting era in Japanese politics will open tomorrow. All three candidates are younger than current leaders who have been discredited by scandals in the past year. All are committed to basic reforms in the party and political system to reduce corruption.

Kaifu: favoured candidate

However, if Mr Kaifu wins, he will first have to show he is not just the puppet of faction leaders who promoted his candidacy and cleared the way for his victory.

This will be difficult for him because, as a member of a small faction, he has very few natural supporters. If he fails, the new era could be short-lived, as current leaders are hoping to return to power after a suitable interval during which their reputations can be cleansed.

The new leader will face unprecedentedly difficult parliamentary circumstances. After the LDP's crushing defeat in elections two weeks ago, opposition parties control the upper house of the Diet.

They will try to block LDP initiatives and press for an early election for the lower house so that they can exploit their current popularity.

At a joint press conference after nominations closed, Mr Ishihara, 56, said Japan had to learn to say no in its trade negotiations with the US. Mr Hayashi, 62, was aggressive on agricultural policy. "The demand to liberalise Japan's rice market is a challenge to Japanese culture," he said.

Mr Kaifu was cautious, as might be expected of a front-runner. He said Japan should work hard to live up to foreign countries' expectations.

Meanwhile, backroom negotiations intensified among major factions to allocate top cabinet and party posts once the new leader is chosen.

It seemed likely that the Miyazawa faction would fare poorly as the only large faction that refused to endorse Mr Kaifu's candidacy.

The Takeshita faction, which led the effort to promote Mr Kaifu, resented persistent efforts of the Miyazawa faction to upset its plans by encouraging Mr Ryutaro Hashimoto, the popular party secretary general, to run.

● Miss Takako Doi, leader of the Japan Socialist Party, hopes to visit Washington next month. She told reporters at the weekend she would like to explain the JSP's views on the Japan-US security treaty and the role of Japan's self-defence force.

Officially, the JSP opposes the secnrity treaty and is pledged to abolish the defence force, hut party officials said in recent weeks thet these were long-term goals.

Hungarian opposition scores poll wins over CP candidates

By Leslie Colitt

HUNGARY'S strongest opposition group, the Democratic Forum, scored two victories over the Communist Party in run-off by-elections at the weekend.

The Forum's gains in the towns of Szeged and Kecskemet were a fresh blow to the ruling party - which faces its first multi-party national elections by June next - and a boost to the morale of an opposition movement which has struggled to counter voter apathy.

In a third run-off ballot on Saturday, participation remained too low to yield a clear result. The three ballots were made necessary by poor turnout in the July 22 first round of voting, which produced only one result - a ground-breaking victory for an anti-Communist Lutheran clergyman.

The fact that the opposition parties have up to now found it relatively difficult to capitalize on the Communist Party's unpopularity reflects their narrow base - they are seen as dominated by intellectuals, remote from ordinary people.

There is widespread popular mistrust of both establishment and opposition, based on fear among workers that economic reforms will lead to mass unemployment.

Directors of state factories have been bombarded with queries from suspicious workers asking whether it was true that the plants were to be sold back to their former private owners.

Personal wrangling which led to a recent division of the Social Democratic Party into two parties may have further soured the population's mood.

Until the by-elections, made necessary by the resignation of Party deputies who had lost the confidence of the electorate, the opposition parties had reason for optimism.

Talks on the country's future between Communists and their opponents began in May and were going unexpectedly smoothly.

Opposition participants in the talks said the Party delegation, now headed by Mr Rezsö Nyers, the head of the Communist Party's collective presidency, agreed to hold fully democratic elections without reserving power for itself as in the Polish elections.

The future status of the Hungarian President, a post Mr Imre Pozsgay - the leading party reformer - would like, is also under discussion with the opposition groups along with a new press law and changes in the criminal code.

In the light of this progress on political questions, the opposition has reversed its previous refusal to discuss economic issues with the Party.

Much as in Poland, the Hungarian Party wants the opposition to bear responsibility for difficult economic decisions.

The Party's radical reform wing led by Mr Pozsgay and Mr Nyers, which aims to come out on top at a Party Congress in October, has said it will go into opposition if it loses at the polls next year.

But other prominent reformers have spoken out in favour of a coalition with opposition parties, a prospect as fraught with danger for the Hungarian opposition as it is for Solidarity.

"The opposition parties would like to see a reformed Party win so that they can remain in opposition until the next elections and gain strength," Mr Koszeg noted.

Fully aware that the idea of a coalition with the Communists - no matter how reformed they may be - is extremely unpopular among Hungarians, the new political parties are playing their cards close to their chests.

Of the dozen or so newly-founded parties and opposition movements, the largest is the Democratic Forum (MDF) which is about to become a fully-fledged political party and has some 15,000 members.

MDF is most frequently mentioned by Communist Party reformers as a possible coalition partner. Its attraction stems not only from its size but also its emphasis on gradual political change.

MDF seeks a "third way" for Hungary, neither capitalist nor socialist.

Jefferson Smurfit to combine US operations

By James Buchan in New York

JEFFERSON Smurfit, the Irish packaging group, is combining its main US paper and paperboard operations in a highly-leveraged deal which could net the company abont $1bn in profits.

The complicated deal, which was ontlined hroadly in an announcement in New York yesterday afternoon, appears to vindicate Smurfit's controversial strategy of expanding in the US through the aggressive use of debt finance and junk bonds.

Morgan Stanley, the hlue-chip Wall Street investment bank which is in a joint venture with Smurfit, will book a profit of $140m on the deal.

Smurfit, which entered the US market in 1974, astonished the London and Dublin financial markets three years ago by huying Container Corporation, a paperboard company larger than itself, in a $1.2bn leveraged buy-out.

Smurfit invested just $60m in the deal, a group of investors assembled hy Morgan Stanley put in $10m and the remainder was raised from bank lenders and the junk bond market.

The new plan is to combine Container, which has prospered under Smurfit's management, with the Irish company's other US operations under a new company worth about $3bn.

This company will again be leveraged in the debt markets to provide Smurfit with a dividend of about $1bn and the Morgan Stanley group with $500m, including $140m for the bank itself.

The junk bond holders will be bought out.

The key to the deal is the sharp improvement in Container's profits under Smurfit management.

The company, which had net earnings of $43m in 1985, has grown steadily with net profits of $87m in 1987 and $127m in 1988.

Mr Donald Brennan, head of merchant banking at Morgan Stanley, said: "The company has done very, very well."

As a preliminary to the deal, Smurfit and a new group of Morgan Stanley investors will buy out the 23 per cent share of the company's US business, Jefferson Smurfit Corporation, held by the public.

They are offering $38 a share, or about $340m. Smurfit said it would retain some Canadian investments and a number of peripheral US operating units. In response to the announced proposal, Jefferson Smurfit Corporation's board appointed a committee of independent directors

Shopping for an easier life in Poland

Continued from Page 1

tomers by baskets: you don't get in without one, and there are only, say, 200: so within a few minutes of opening, a basket queue has formed. The Friday lunchtime Mokotow Supersam basket queue was a half-hour affair, at least. A few young queuers were reading books: War and Peace would have been good. Most were scowling at everything and everybody.

Once in, you are better served than your equivalent in Moscow but in another much harsher world from that of the consumer of the West - even the poor consumer of the West. Unlike the Soviet Union, there are commodities made by a growing band of private, small joint venture companies - such as Polservol, Atomica Fructara - all stamped swith a "PZ," for foreign company.

These are better: better packed, and more expensive. For example, a jar of private mayonnaise was Zs396, while the state produce, dribbling out from beneath an ill-fitting tin lid, was Zs235. Milk, still price-controlled, is Zs19 for a half litre (or a quarter of a US cent), but it has to be boiled to be drinkable. Milk produced by an agricultural co-op and called "Straight from the Cow," costs Zs145 or a massive 2 cents.

This comparison of prices with their dollar equivalents is not meaningless. The dollar is the second currency in Poland, fetching around Zs6,000 at the legal market price.

Many Poles have access to dollars. Shopping for them is, as it were, done through bifocals: they can see that the price rises of the past week have been alarming to Poles on low incomes, especially the 7m pensioners with a monthly income of Zs30,000 to Zs40,000. One old lady said on television she had fallen to the pavement when she saw the new prices earlier last week. But because of the Polish currency's continual devaluation, the prices in dollar terms are still, in the main, peanuts.

You can in fact buy peanuts in the familiar (to Western eyes) cans salted and roasted at the Polina Street market. Polina is the exclusive shopping centre in Warsaw: you can spot it by the circle of BMWs, Mercedes, VWs and the odd Jaguar which surrounds it.

A kilo of good sausage from a stall which had a sign on it saying "Glasnost" costs Zs20,000 – half a pensioner's monthly income. An egg costs Zs150.

My guide on Friday, a young Polish woman, went to a dairy products stall, shook hands with the elderly stallholder and took swift delivery of a pre-wrapped kilo of butter literally from under the counter. She had asked for it the day before: it was Zs4,000, more than double the shop price - but fresh, well packed and no queueing.

Polina Street is relaxed, cosmopolitan and sophisticated. The other good and pricey market in Brzeska Street, in the Praga suburb, is shadier, with a reputation for being a thieves' kitchen. You can order a chicken from a selection of live birds stuffed half alive in cages, and come back at the end of your shopping to collect it after its neck has been wrung off stage. I asked the tough old chicken who ran the stall how much her birds were: "If you're serious about buying, I'll name a serious price," she said.

WORLD WEATHER

Ajaccio	[illegible]	Dubrovnik	[illegible]	Malta	[illegible]	Rhodes	[illegible]
Algiers	[illegible]	Faro	[illegible]	Manchester	[illegible]	Rio de Jo	[illegible]
Amsterdam	[illegible]	Florence	[illegible]	Manila	[illegible]	Rome	[illegible]
Athens	[illegible]	Frankfurt	[illegible]	Melbourne	[illegible]	Salzburg	[illegible]
Bahrain	[illegible]	Geneva	[illegible]	Mexico City	[illegible]	San Francisco	[illegible]
Barcelona	[illegible]	Gibraltar	[illegible]	Miami	[illegible]	Seoul	[illegible]
Beirut	[illegible]	Glasgow	[illegible]	Milan	[illegible]	Singapore	[illegible]
Belfast	[illegible]	Guernsey	[illegible]	Montreal	[illegible]	Stockholm	[illegible]
Belgrade	[illegible]	Helsinki	[illegible]	Moscow	[illegible]	Strasbourg	[illegible]
Berlin	[illegible]	Hong Kong	[illegible]	Munich	[illegible]	Sydney	[illegible]
Biarritz	[illegible]	Innsbruck	[illegible]	Nairobi	[illegible]	Tangier	[illegible]
Birmingham	[illegible]	Inverness	[illegible]	Naples	[illegible]	Tel Aviv	[illegible]
Bombay	[illegible]	I.o.Man	[illegible]	Nassau	[illegible]	Tenerife	[illegible]
Bordeaux	[illegible]	Istanbul	[illegible]	New Delhi	[illegible]	Tokyo	[illegible]
Brussels	[illegible]	Jersey	[illegible]	New York	[illegible]	Toronto	[illegible]
Budapest	[illegible]	Karachi	[illegible]	Nice	[illegible]	Tunis	[illegible]
B. Aires	[illegible]	Las Palmas	[illegible]	Nicosia	[illegible]	Valencia	[illegible]
Cairo	[illegible]	Lisbon	[illegible]	Oporto	[illegible]	Venice	[illegible]
Cape Town	[illegible]	Locarno	[illegible]	Oslo	[illegible]	Vienna	[illegible]
Casablanca	[illegible]	London	[illegible]	Paris	[illegible]	Warsaw	[illegible]
Chicago	[illegible]	Los Angeles	[illegible]	Peking	[illegible]	Washington	[illegible]
Cologne	[illegible]	Luxembourg	[illegible]	Perth	[illegible]	Zurich	[illegible]
Copenhagen	[illegible]	Luxor	[illegible]	Prague	[illegible]		
Corfu	[illegible]	Madrid	[illegible]	Reykjavik	[illegible]		
Dallas	[illegible]	Majorca	[illegible]				
Dublin	[illegible]						

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Offer to free hostage

Continued from Page 1

were no public statements by the administration.

There has been no lessening of the military preparations, both in the eastern Mediterranean and in the Arabian Sea where a large naval group led by the carrier America will be in a position to launch an air strike at Iran early this week.

Mr Bush faces strong political and public pressure to use the current crisis to bring the whole hostage position to a head.

Senator George Mitchell, the Democratic Majority leader, and Senator Robert Dole, the Republican Minority leader, yesterday both praised the President's handling of the affair.

They both also agreed with the implicit administration position that were another American, such as Mr Cicippio, to be killed, "that might be sufficient to trigger an American military response."

An uncertain factor in the current talks is the more than $1bn in Iranian assets in the US which was frozen 10 years ago.

THE LEX COLUMN

BAT's cut-price conundrum

However absurd the bid for BAT may look in its present form, the Hoylake team has made an important early gain in the propaganda war. Its central contention is that BAT in its present form is a mistake, and must be broken up. Sure enough, the investment community has responded with a flood of alternative break-up plans and valuations. No one, not even BAT's existing management, has suggested that the company is ideal as it is.

The basic question is whether companies can ever justify standing at a discount to realisable asset value. If the directors of a company are offered more for an asset than it is worth to the business, they owe it to shareholders to take the money. Put another way, if BAT without a bid is worth say £6 a share and its break-up value is £10, it is up to the directors to explain to shareholders why they should do without their extra £4.

BAT's initial response is to point out that under the present chairman, total returns to BAT shareholders have been well in excess of the market average.

By implication, the £4 (or whatever) is better left where it is than re-invested by shareholders. This is, to put it mildly, at odds with any notion of efficient markets. If the market really believed in such superior returns in future, it would bid up the share price to close the gap.

Dear managers

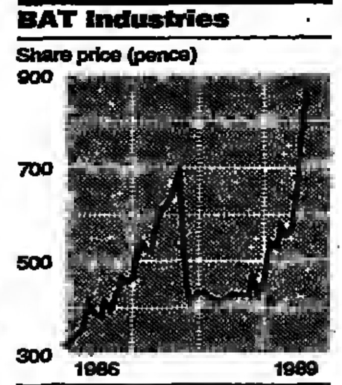
There are suggestive parallels with the discount to asset value in investment trusts. This phenomenon has never been fully explained, but it will partly reflect the cost of fees and salaries to the trust's managers. More cynically, if the market assumes that the managers cannot beat the average but will carry on trying, the discount will reflect their dealing costs as well.

The parallel holds good to the extent that BAT is a hands-off portfolio manager. Indeed, the situation is worse if in acquiring companies, it ends up paying a premium for control. The term is sometimes used carelessly: the premium is worthless unless it can be expressed in other ways, such as cost savings, operating synergies or access to cash flow.

If there are no such benefits, the premium is bad news for the bidder's share price. If BAT buys an insurance company, say, at a higher multiple of earnings than the market put on it, the market will take the money, then revert to its earlier valuation of these earnings in working out the BAT share price. For BAT's shareholders, the extra paid is thus dead money – or worse, if the share price goes on to discount the risk of BAT doing the same again.

BAT Industries

Share price (pence)



All this assumes that BAT brings nothing in terms of efficiency to the companies it buys. In fact, this is unlikely to be true, even if the effect is impossible to quantify. Visiting established BAT subsidiaries, one is frequently struck by the quality of management and by the strength of the culture which binds them together.

It can also be argued that a hands-off conglomerate can help a subsidiary by diversifying its risk; that Farmers, say, may be prepared to take more radical business decisions as part of BAT than on its own. But the question is not whether Farmers will do better under BAT; it is whether it will do sufficiently better to justify the enormous premium paid for it.

Old style

There is also the feeling that for good or bad, BAT is now a profoundly old-fashioned structure. Few companies would now propose to spend their excess cash on buying well-run businesses to which they may or may not be able to add value. Even if the Boots bid for Ward White suggests the tradition is not quite dead, a more likely blueprint for the future is the television company LWT, which is distributing cash to shareholders and increasing management's share of the equity at the same time.

Goldsmith and Rothschild are thus in tune with the times in claiming that a structure like BAT suppresses the entrepreneurial instincts of its managers. It is now not uncommon for diversified companies in the US to obtain partial quotations for their subsidiaries, and offer the managers stock options in the bits of the business they have control over. Several UK companies talk privately about similar plans, which would doubtless become reality if they were bid for.

To all of this, BAT would make a traditional rejoinder. Its break-up value may be higher than its share price: but that simply means the share price is wrong. Again, this argues for market inefficiency on a quite heroic scale. Ever since the RJR Nabisco deal, every investment banker in London and New York has been rehearsing BAT's break-up values to anyone who will listen. The market is quite aware of what the assets are worth to others; it simply thinks they are worth something different in the hands of BAT.

The next step

And what if Hoylake were simply to go away? Typically, when a bid has failed the target company's price will not revert immediately to its pre-bid level. The market will spend time considering whether it had undervalued the company before; it will also have hopes either of another bid, or of better results from a galvanised management. But in the absence of another bid, academic research suggests that over the next couple of years the price will end up back where it started.

Not that there is any evidence that Hoylake is about to abandon the campaign. Granted, the BAT share price has fallen sharply in the past week, and is now more than £1 off its peak and 24p below Hoylake's notional 850p bid price. This is because it has gradually dawned on the market that the tangle of US litigation in which Hoylaks is now enmeshed may not be consistent with the UK timetable for bid procedure.

But none of that was unforeseeable; and while it is pointless to speculate in detail, it can be assumed that Messrs Goldsmith and Rothschild laid contingency plans before they started. Hence, presumably, the exploratory and low-cost nature of the initial bid, which allows it to be dropped if necessary and resumed later in the litigation process. The important thing is that no-one else can intervene in the meantime; a rival bidder would have to start the same tedious legal process all over again.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday August 7 1989

INSIDE

Lucas starts to see the light

After conducting a revamp of Lucas Industries' automotive activities nearly 18 months ago, Bob Dale sat in the two-thirds empty mausoleum at Great King Street, Birmingham, which was once the thriving hub of a vast car components empire and wearily acknowledged – for the umpteenth time – that Lucas had undergone more motor components reorganisations than many have had hot dinners. This time, however, there are increasing signs that the shake-up is having the desired effect, writes John Griffiths. Page 16

French bonds join the bicentenary celebrations

France had more than its fair share of publicity in July as the bicentenary of its revolution was celebrated in style. A few privileged citizens, however, were aware that one subject worthy of attention slipped by almost unnoticed. Despite the celebrations, and the resulting absence of many French investors who preferred to be on the beach, July witnessed the sudden expansion of new issue activity on the Euro-French franc market. Andrew Freeman reports. Page 17

The double-edged appeal of consumer electronics

The share that colour television sets, hi-fis and the video recorders take of Japanese domestic output has dwindled to a mere 20 per cent as production has been shifted offshore. Yet, in the West, the consumer products business is being exalted as the harbinger of the next revolution in information technology. So has western industry got it wrong – jumping into a market just as the Japanese are pulling out? No, argues Guy de Jonquières. For though the Japanese have widened their horizons beyond consumer electronics, they are a long way from abandoning an activity that remains an indispensable weapon in their industrial arsenal. Page 30

Market Statistics

Companies in this section

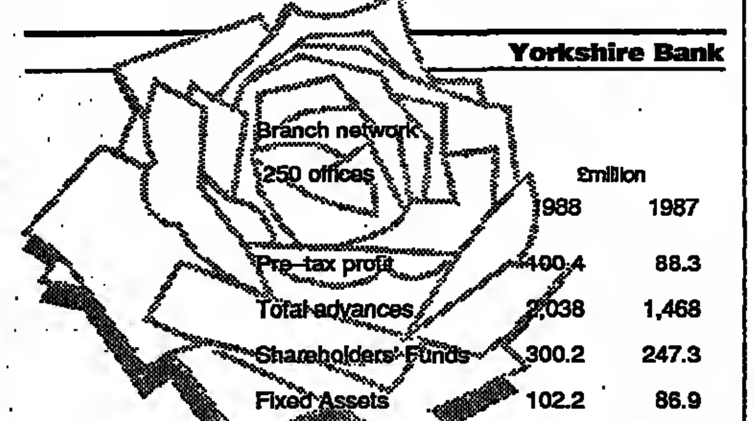
Foreign suitors lured by the English rose

David Barchard on what could be a rare opportunity to buy into the top end of the UK banking market

For foreign banks eyeing Britain's banking market with 1992 in mind, the news that Yorkshire Bank may be up for sale is an exceedingly rare opportunity to buy into the market at the top end.

For though Yorkshire Bank resembles Girobank, the only other UK bank to come onto the market in the last year, in having its headquarters in the North of England, the resemblance stops there.

For nearly eight decades, Yorkshire Bank has been owned by a consortium of the big clearers. What began in Edwardian times as the bailing out of a provincial savings bank, had become by the 1980s an extremely remunerative if low profile joint venture between National Westminster, Barclays, Lloyds and Royal Bank of Scotland.



Midland was once a member of the consortium, but dropped out in the early 1950s. Today NatWest has a 40 per cent stake; Barclays 32 per cent; Lloyds 20 per cent; and Royal Bank 8 per cent.

If Yorkshire Bank is sold – so far its owners have only indicated that they are thinking about a possible deal – the four will be sacrificing the annual contribution it makes to their profits in favour of the handsome goodwill premium it can be expected to raise.

This will strengthen their capital base in a year when all of them have been forced to shell out hundreds of millions of pounds in provisions against Third World debt.

In British banking, there are few institutions which can be directly compared with Yorkshire Bank, a low-cost, no-frills provider of solidly profitable retail banking services which has been given a relatively free hand by its owners for several decades to get on with the business of quietly making money in a local market with which it is closely linked.

For many years, the bank's general manager was not even a member of the board which consisted of retired senior figures from the clearing banks who would cast experienced eyes through its accounts.

When three years ago, Mr Graham Sutherland, Yorkshire's general manager, was offered a place on the board, it was a break with tradition. Before accepting, he felt obliged to sound out his colleagues in Leeds to be sure that they would not object to his new role.

Similar conservativism has helped shape the bank's high profitability the origins of which lie in the late 1950s when it was one of the first UK banks to go into the personal lending market, drawing on its detailed knowledge of its customers, who are now around the 1.1m mark.

Its role as a trail-blazer in this market was somewhat uncharacteristic. More typical was Yorkshire Bank's initial unwillingness in the early 1980s to enter the residential mortgages. "We disliked the idea of lending long and borrowing short and we noticed that the building societies in those days still seemed to have clear advantages over the banks when rates were high," says Mr Sutherland.

In recent years, Yorkshire Bank's has been behaving much more like any other clearer. It has broadened its range of products, cautiously begun to offer cash machine facilities, and become a Visa credit card issuer.

Last Friday, it also joined Switch, the electronic debit card scheme launched last year by NatWest, Midland, and Royal Bank of Scotland.

More striking has been the steady growth of Yorkshire Bank's 250-strong branch network.

Although roughly half its customer base is still in Leeds and Humberside, there has been a striking advance southwards. Branches are now to be found in southern towns such as Abingdon and (very soon) High Wycombe.

A notable and deliberate gap in the map is London where Yorkshire Bank maintains just ona branch, at Cheapside in the City.

There are also some relatively unexplored areas in its business profile. Its clearing bank owners have no doubt been perfectly satisfied that corporate lending is one. Though Yorkshire Bank is proud of the corporate business it has built up, other Leeds banks will quietly tell you that it is more of a bank for the small businessman than larger companies.

These are gaps which any purchaser will not find it difficult to fill, though a foreign bank wanting to use Yorkshire as a springboard for a full-scale presence in the British retail banking market, would almost certainly try to add to its presence in the south, perhaps by purchasing one of the larger southern building societies.

So far, only National Australia Bank is known to have made a definite approach to buy Yorkshire Bank. Its owners must be hoping that other suitors will appear and that the price can be driven upwards.

Word in the City last week was that, with the goodwill it can command, the Yorkshire Bank should fetch a price around 15 times its historic earnings, or perhaps £850m to £900m ($1.4bn).

National Australia, however, has a head start, having a substantial presence in the UK banking market already by its ownership of Clydesdale in Scotland and Northern Bank in Northern Ireland. Last week National Australia had a rights issue of A$334.4m ($257m) partly aimed at financing international acquisitions.

The field of Yorkshire's suitors is unlikely to end there, however. French banks, snch as Credit Lyonnais (which is believed to have been rebuffed as a purchaser for Girobank) and perhaps even German and Japanese Banks will probably feel inclined to examine its prospects very seriously.

Don't count on US economic policy

By Anthony Harris
in Washington

American weather-persons announce the barometric pressure as "three-oh point two nine inches"; yet I'm sure that they don't answer questions about their age with "three four." Slightly odd, that. When a serious newspaper reports that the Japanese have been selling some device at "178 per cent below cost" it is rather more than odd (what they meant was that a 178 per cent anti-dumping duty had been imposed). When a shop assistant gets out his calculator to discover how much change I am due for a $3 purchase out of a $5 bill, the penny drops. Clearly, many Americans do not find numbers user-friendly.

This isn't just an American problem, of course. I remember a London news bulletin which said that 300,000 tons of bananas were rotting on the quayside in Barcelona – about 14lbs for every Spaniard; an overstatement by a factor of 100 that nobody had noticed. At least, though, the number can be translated as "a lot of bananas". It is harder for American listeners to know what is going on when they are routinely told, for example, that "inflation rose 0.2 per cent last month," when what the announcer means is that prices rose, but inflation fell. (The BBC used to muddy the waters itself by decribing a trade surplus as a "profit", but has learned better economics from long national adversity.)

When the problem appears at what ought to be professional levels, it is downright worrying. Only last week, for example, a leading business magazine published a letter explaining that the idea that high interest rates mean that the cost of capital for US businesses is high is a myth.

The interest rates gap, the writer explained, simply measured the difference in inflation expectations between the US and its competitors. This, he went on, is proved by the forward discount of the dollar in the currency markets against low-interest-rate currencies. If they didn't like the answer, borrowers could always go to Tokyo.

This is the kind of nonsense one expects in a saloon bar argument, or from a first-term student; but the letter was signed by an associate professor of finance at an apparently respectable university. When professors of finance apparently do not know anything about arbitrage, which ensures that forward rates are a strict function of interest differentials, or the cash flow strains of high nominal rates, or the risks of exchange rate exposure in today's markets, his students are in trouble.

These anecdotes are a long approach shot to the paradox that really concerns me: the US has a virtual world stranglehold on first class economics, but ordinary American legislators and media tend to make a fearful muddle of quite straightforward problems.

The debate on the savings and loans which has obsessed the Congress right up to the summer recess is an excellent example. The fact that the exercise is universally known as "the S&L bail-out" got the discussion off to a bad start; for the failed thrifts have not been bailed out. They are bankrupt, and their owners may wind up in jail. The crisis is simply about making good on the federally insured deposits which financed their unwise lending.

Once it is realised that the effort is aimed simply to prevent up to $200bn of small savings from vanishing in a puff of acrid smoke (and incidentally to preserve the faith and trust of the US Treasury), the issues are fairly simple. The question the crisis ought to raise is whether savers need federal guarantees in the first place.

Other countries get along very well without State insurance, because they make sure that the saving institutions are properly supervised; in the US the combination of insurance and lax supervision was deadly. Congress did, to its credit, tackle the question of rules of conduct in the face of much lobbying; but the insurance question was ducked entirely. They did not even try to amend the rules to make sure that the cover is restricted to small deposits, as was originally intended. As things are, brokers can split any sum, however large, into insured, $100,000 packets.

Instead, both sides spent their time accusing the other of sharp practice in trying to keep the capital cost of the claims off the Budget. This is purely a financing transaction, and therefore, as Mr Alan Greenspan patiently explained last week, should rightly be handled off budget. The taxpayer must simply pay the interest which depositors expected to receive from mortgage-holders. It is not so easy to stop a good political row. Unfortunately the Administration had never made Mr Greenspan's point. The final compromise managed to get the worst available result, as usual.

Part of the money will be put on the budget this year, when no waiver is required under the Gramm-Rudman Hollings deficit-limiting Act: G-R-H is about projections, not about out-turns. This reminds international investors to read the small print. The rest is raised through the Administration scheme for a special off-Budget financing corporation, which will probably now be regarded with unjustified suspicion. One note of good sense: Messrs Dan Rostenskowski and Leon Panatta, chairmen of the relevant committees, voted against this mess.

If anyone could have prevented this unnecessary row, it is Mr Richard Darman, the budget director; he is a highly sophisticated thinker who has also charmed the Congress. Unfortunately he has yet to master the Greenspan art of explaining issues in simple terms without appearing to talk down.

Mr Darman was in trouble again recently when he gave a thoughtful talk to the National Press Club on the need for long-term thinking – be is especially concerned to get people thinking about the importance of public-sector investment, which fell by half from an already very low level in the Reagan days. His talk was reported, so far as it was mentioned at all, as just another hell-fire sermon on deficits.

Economics is complicated, and can often be rather boring: Americans are trained, by their media and their politicians, to regard it as simple, but generally deeply alarming. As a result, it is hard to sell sound policies, but easy to stir up a crisis.

A final silly-season example. Some high tech-companies in Europe, and non-European operations, are finding it hard to find high-end suppliers to satisfy local content rules. This includes Japanese car-makers and European computer-makers – who complain that only IBM can meet the requirements for public-sector buying. They have been begging American chip-makers to set up European operations. This could be reported as what it is a tribute to American know-how. It is reported instead as sinister evidence of Fortress Europe. Watch for developments.

Economics Notebook

The taxing problem Italy faces

GOOD fortune recently took me to one of Rome's smartest and most expensive restaurants where, both of us having dined in fine style, my host was presented with the bill scrawled on a scrap of paper evidently torn from a child's exercise book. The significance was immediately grasped: the proprietor of this fine eating house, who that same evening was feeding Italy's new foreign minister, was intent on evading payment of the value added tax on his by no means modest charge.

My host protested that be did not expect to be asked to participate in evasion by such a top restaurant which (very Italian, this) had not even had the good grace to invite him to share the sin by discounting the bill. A proper receipt was duly presented and my friend freed from the danger of arrest. A law passed in 1980 renders consumers liable to punishment if they are found without a receipt in the immediate vicinity of services purchased.

The incidence of tax evasion in Italy is truly phenomenal, reflecting a culture which still tends to regard the state as an occupying power and its defrauding as almost a social duty. Most estimates put the total sum failing to reach the national exchequer every year at between L200,000bn and L250,000bn ($188bn) or around 20 per cent of gross domestic product. This year's budget deficit will be in the region of L130,000bn and could in theory be wiped out if the problem was more efficiently addressed.

Every government, including the one most recently installed under Mr Giulio Andreotti, promises to improve the State's performance in collecting taxes, but most have failed to make much impact.

A recent report from the Corte dei Conti – the independent institution which checks the national accounts – identified three basic reasons for the extent of evasion. First and most important is the inadequate scrutiny of tax returns which means that in 1988 only 225,000 out of a total of 25m direct tax payments were checked and only 150,000 out of 5m VAT returns. The second reason was the enormous backlog of land and property – some 8m factories – still to be valued for tax purposes, and the third was the extraordinary length of time needed to individual challenges to tax assessments.

The Court reported that there were no fewer than 2.6m outstanding cases to be adjudicated by Italy's special taxation courts because they lack the staffing, in particular a complement of full time judges, to make much impression on this mountain. An IMF report to the Government late last year explained that it was in taxpayers' interests to challenge assessments because they would only pay 12 per cent interest on the final sum for which they were judged liable, and better returns are to be had from long-term investments. Moreover, taxpayers can reasonably hope to benefit from one of Italy's regular tax amnesties which will allow a lower payment than that originally demanded.

If Mr Paolo Cirino Pomicino, Minister of Finance, really wants to attack tax evasion he could do a lot worse than pour over the IMF report. One of its key recommendations was the need for a simplification of the tax system by abandoning the greater part of the 100 or so taxes for which an Italian may be liable.

In fact, 97 per cent of the Treasury's income derivee from just 16 imposts, and the costs of trying to apply the dozens of others far outweigh the revenues derived. The IMF observed that a study made last year showed that the costs of gathering direct taxes were 5.3 per cent of total revenues and 4.1 per cent of indirect taxes, far higher than the 2 per cent average in other industrialised countries.

The report was understandably disconcerted by current plans which can only raise these costs by adding another 15,000 to the 100,000 people in the Ministry of Finance and the tax police, the Guardia di Finanza, currently involved in administering the tax system.

Their efforts, it said, would be mnch more concentrated and effective if a reduction in the number of taxes was accompanied by large-scale exemptions from the payment of VAT.

It has to be pointed out that not all Italians are serious evaders – the act is virtually impossible for the directly employed to sidestep, while large businesses also assume their responsibilities.

Indeed, the relative freedom of self-employed people to keep most or all of what they earn is causing euch resentment among those with no such opportunity; that the trade unions are mounting a major campaign aimed at sparking a convincing war on tax evasion.

If the problem is ever seriously tackled, it will mean economic misfortune for some, but also a profound change in the nation's politics. Because once a sufficient number of Italians are actually digging into their pockets to pay for public services, they are bound to demand something rather better than the current woefully inadequate health, welfare and other services which the politicians have so far done so little to improve.

John Wyles

THIS WEEK

THE SPENDING and borrowing behaviour of both US and UK consumers will provide themes for financial markets this week.

Final UK retail sales figures for June are published today. Provisional figures showed a fall of 1.8 per cent, cutting the annual growth rate to its lowest level for nearly five years. But the series is volatile and could be substantially revised.

US figures for retail sales in July are released on Friday. Recent months' figures have pointed to a significant slowdown in consumer spending, soothing concerns about inflation and encouraging hopes of an easing of monetary policy. The consensns of analysts' forecasts, compiled by MMS International, the financial research company, is for a rise of 0.5 per cent.

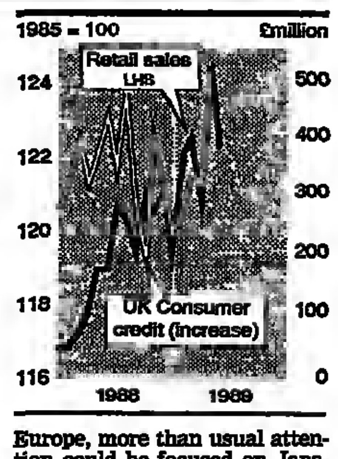
Other US figures include the producer price index for July, also on Friday. The index is widely regarded as a good indicator of future inflationary pressures.

It could give further clues about the expected abatement in price pressures, influencing bond prices as well as dollar trading. The consensus of analysts forecasts is for a rise of 0.1 per cent compared with the previous month.

In the UK, figures for consumer credit agreements in June are released at the same time as the retail sales numbers. In May, credit outstanding showed a record £505m increase – prompting speculation that consumer borrowing had become indifferent to higher interest rates.

The Bank of England publishes its August quarterly bulletin on Thursday. Analysts will be reading between the lines in the bank's economic assessment for clues about the interest rate policy of the monetary authorities and for hints about when a cnt might be expected. Most expect the bank to play down hopes of an early fall.

With few economics statistics expected elsewhere in



Europe, more than usual attention could be focused on Japanese trade figures for July which may be published later this week. During the Spring there were signs that the monthly surplusea may hava been getting smaller hot many analysts expect the latest figures to show a return to an upward trend.

The election of a new President of the Japanese Liberal Democratic Party on Tuesday will also be a focus of attention. Last week Mr Toshiki Kaifu, a former cabinet minister, emerged as front-runner to replace the disgraced Prime Minister Mr Sousuke Uno.

Other events and statistics this week include:

Today: US, Consumer installments credit for June. Commonwealth foreign ministers meet in Canberra.

Tomorrow: Japan, Economic Planning Agency publisbes annual white paper on Japanese economic performance and developments. US, three-year Treasury note auction.

Wednesday: US, 10-year Treasury note auction.

Thursday: Australia, employment figures for July. US 30-year Treasury bond auction. UK, Bank of England banking sector statistics for second quarter, money stock in second quarter.

Friday: UK, usable steel production in July. Hong Kong, June external trade statistics.

UK COMPANY NEWS

Maxwell renews interest in Harcourt Brace

By Raymond Snoddy

MR ROBERT MAXWELL, the publisher, has renewed his interest in trying to acquire some of the publishing operations of Harcourt Brace Jovanovich, the US educational publishing group.

Two years ago, Mr Maxwell, chairman of Maxwell Communication Corporation, launched a $1.73bn bid to take over Harcourt Brace – a bid that finally failed after bitter litigation.

During the battle Mr William Jovanovich, like Mr Maxwell a self-made publisher of Eastern European origin, said of his British antagonist: "Mr Maxwell has money, but not enough. He has ambition, but not enough. He ought to be sent packing to Liechtenstein (where the trusts controlling Maxwell companies are based)."

To avoid the unwanted Maxwell embrace Harcourt decided on a $3bn recapitalisation plan which tripled the company's debt to $2.9bn.

Magazine and school supply businesses were quickly sold off and this June, under pressure from bankers and Wall Street, Harcourt Brace decided to sell its six theme parks – including the Sea World aquariums to reduce debt.

The first round of bidding for the theme parks, expected to raise more than $1.5bn, is now under way.

Mr Maxwell believes that the problems of Harcourt Brace are now so severe – its first quarter net loss from continuing businesses rose 151 per cent to $131.5m – that there will be further disposals.

The British publisher, who is not interested in either the theme park or Harcourt Brace as a whole, is interested in acquiring any of the company's textbook, scientific or medical publishing businesses that come on the market.

He regards the bitter takeover battle as past history and has indicated that his interest in any Harcourt Brace operations would be a matter of business rather than revenge.

At an MCC briefing last week accompanying the announcement of £192m pre-tax profits for the 15 months to March 1989, Mr Maxwell was, however, scathing about what had happened to Harcourt Brace since the decision to recapitalise.

Mr Maxwell went on from his Harcourt Brace defeat to successfully take over both Macmillan, the US publisher, and Official Airline Guides last year in deals that totalled $3.5bn.

He said last week that the fall in his debt now gave his group the freedom of manoeuvre needed "to make further strategic acquisitions should the opportunity arise."

The British publisher added, however, that there were no billion dollar deals in prospect.

Wace extends presence in the US

Wace Group, the pre-press services company, is to buy two US film processing companies for an initial consideration of $1m (£617,000) in shares and cash. There will be further performance-related payments up to $4m.

This move will extend Wace's presence in the US both geographically and its range of services.

The two companies, which trade under the name of Ross Ehlert, run film processing laboratories and offer reproduction services to the exhibition and advertising industries.

One of the companies is based in Chicago, the other in Florida.

Backing sought for alternative BAT plan

By Andrew Hill

AIM GROUP Zurich is hoping to persuade Lord Thomson of Monifieth to put forward its alternative reorganisation plans for BAT Industries, the tobacco-based conglomerate facing a £13bn bid from Sir James Goldsmith's Hoylake consortium.

AIM, a little-known merger and acquisitions business which seems to be viewed with a mixture of disdain and amusement by the main players in the BAT bid, yesterday produced more details of its counter-proposals. It claims the plan – for the existing board to dispose of BAT's non-tobacco interests – would realise some £1bn or £2bn more than Hoylake's proposals.

Mr Antonio von Marx, who fronts AIM and is a distant cousin and former employee of Sir James Goldsmith, said a "steering committee" of leading industrialists would be appointed to press for a special meeting of BAT shareholders. A vote to approve the plan would require the support of investors holding at least 10 per cent of BAT's equity.

Lord Thomson, a former chairman of the Independent Broadcasting Authority and a director of Royal Bank of Scotland and ICI, would chair the committee. Mr von Marx said he had worked with Lord Thomson on a 1979 television programme. So far, however, he has been unable to contact the peer. AIM said the non-tobacco businesses would become part of a separate company, "EX-BAT". Within a year, after divestment, EX-BAT would be put into voluntary liquidation, in an attempt to bypass income tax liabilities, and the proceeds passed to shareholders.

Mr von Marx said up to ten UK merchant banks would be appointed to auction off the non-tobacco businesses. Kleinwort Benson had already agreed to take part, he added.

Today's fashion is tomorrow's risk

John Griffiths on Lucas Industries' approach to technology of the future

SHORTLY AFTER conducting a revamp of Lucas Industries' automotive activities, Mr Bob Dale sat in the two-thirds empty mausoleum at Great King Street, Birmingham, which was once the thriving hub of a vast car components empire and wearily acknowledged – for the umpteenth time – that Lucas had undergone more motor components reorganisations than many had had hot dinners.

"Will this one work? There's no point in me saying 'of course it will', because you won't believe me anyway. You're just going to have to wait for next year's profit figures".

That was nearly 18 months ago. And as this year has progressed Mr Dale, 50, managing director of the Lucas Automotive division created out of the reorganisation, has assumed increasing confidence.

First came confirmation, in March, that profitability of Lucas' automotive operations was continuing to climb sharply, even if sales were not.

The 23 per cent rise in operating profits last year, on a static turnover of around £1.2bn, accelerated to 34 per cent – on sales of £634m – in the current year's first half. Nomura Research Institute's Mr John Lawson, for one, sees the trend as likely to continue, at least in the short-term.

Last month, Mr Dale disclosed that Lucas Automotive intended to expand more than five-fold its production of sophisticated, electronic-based car anti-skid systems.

This week news came of a landmark contract to supply BMW with 400,000 fuel injectors a year, giving cautious credence to Dale's contention that even West German car makers would like to weaken the near-monopolostic grasp in the "high-tech" sector of components giant Robert Bosch, and that Lucas can help in the process.

Lucas is about to announce that another "prestige" car maker, Saab, is to take complete electronic fuel injection systems from the UK-headquartered company.

However, both Mr Dale and Lucas Industries' chairman and chief executive, Mr Tony Gill, insist that they are not complacent about the turnround.

Even though the BMW contract has been seen in the City as a vote of confidence in Lucas, "we know that there are analysts out there just waiting for car markets to go down, and us to go down with it again – I'm looking to disillusion them", said Mr Dale.

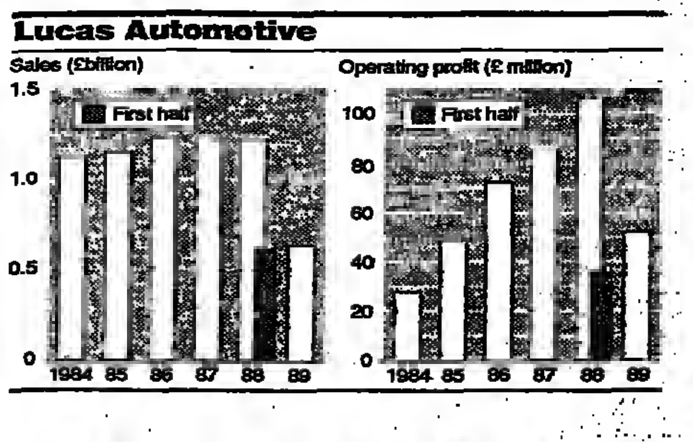
The contention that Lucas won't necessarily suffer too much when the current, four-year-old boom in West European car sales, comes to an end is based on several arguments.

The first is linked to Lucas' core strategy of investing heavily in its own expertise to produce sophisticated electronic-based systems for vehicles of the future.

"Cars are going to become much more complex", says Mr Dale. "And if we're supplying a range of complex component sub-systems and packages, there's no reason for our sales value to go down even if the car market does". Lucas Automotive is currently investing around £100m a year in research and development in pursuit of this goal.

So far, it believes car buyers have only glimpsed the new technology to be applied in cars over the next few years. For example, says Mr Dale, "London has to have a vehicle control system – it can't be left to traffic lights", thus opening new opportunities in terms of components for automatic guidance systems.

Lucas is also preparing for the approach of the drive-by-wire "intelligent" car, in which suspension, traction, steering and other key aspects of a vehicle's behaviour will be under electronic control.



"Essentially, we're dealing with systems integrators; traction control, chassis control – the developments are almost endless."

Increasing sales volume – Lucas Automotive's turnover has hovered around £1.2bn for the past four years – is a task that still lies mainly ahead, even if given impetus by the new contracts.

However, Mr Dale reckons Lucas is much better placed to do so as a result of steady progress made on managing costs downwards. He estimates to have taken 20 per cent out of costs already through the restructuring seen in the process acknowledging a debt to the Japanese. "We've copied a lot of their methods", says Mr Dale – a task made easier by the joint ventures in which Lucas Automotive is already involved, which are likely to be followed by more over the next few years.

These are Lucas Yuasa Batteries, which is supplying ignition and braking equipment and batteries to Nissan's manufacturing plant in the UK, and Lucas Sumitomo Brake Industries in the US. The latter was set up initially to supply Mazda and Ford's joint vehicle plant at Flat Rock, Michigan. But it is seen also as a lever for prying open further Japanese "transplant" business in North America.

Rist's, Lucas' in south Wales which is to supply Rover and Honda with wiring harnesses, is said to have been a major beneficiary of work practice restructuring – "you might believe you were in Japan", claims Mr Dale – "it's a replica of a Sumitomo factory."

Mr Dale makes clear that Lucas is on the prowl for further joint ventures with the Japanese in other product areas; an aspect that has assumed even higher priority in the wake of Toyota's decision to set up both car and engine manufacturing plants in the – the biggest Japanese investment to date in Europe.

"Toyota are intensely conscious of the need to be seen as 'European'", claims Mr Dale, who has already started talks with the Japanese company. He insists that all three Japanese incomers already feel "comfortable" with Lucas because of its long-standing links with the Japanese industry. About half of all Japanese cars, for example, use Lucas' braka technology under licence.

Group chairman, Mr Tony Gill, believes that a more pessimistic scenario, of European component makers struggling against an invasion of Japanese component makers – as has happened in the US, where there are now over 300 – won't materialise.

When Japanese car makers first arrived in the US they found a domestic car industry which was very vertically integrated, and consequently an inadequate and inefficient infrastructure of independent component suppliers – and thus had to encourage Japanese component makers to set up shop.

"The European independents, he suggests, have both had time to restructure and were in any case more efficient and flexible because the European manufacturing scene is so much more complex.

Lucas Automotive is also not ruling out any acquisitions which might be relevant to its central strategy – a sharp contrast to the disposal of some of its "commodity" component businesses like lighting and starter motors a year or two ago and which at the time fixed speculation that, like Smith's Industries, Lucas might be planning to get out of the motor components sector altogether.

"We're now financially strong and positioning ourselves to do whatever looks right", says Mr Gill. Some further minor restructuring of the existing automotive operations is also in prospect: "some small disposals, but no dramas – just pruning and good housekeeping".

However, Mr Dale stresses, one of the main lessons Lucas has learned during the 80s is to be flexible in attitude and approach. "As the motor industry continues to go through the globalisation process, we will see the players continuously shifting strategy; that is why we are not casting in concrete our own portfolio for the next few years.

"Today's fashion is tomorrow's risk."

Red Funnel disowns press profit estimates

By Andrew Hill

RED FUNNEL Group, the Southampton-Cowes ferry operator facing a hostile bid from Sally UK Holdings, has dissociated itself from press estimates that its three principal divisions contributed equally to group profits.

Last year, Red Funnel made £2.84m before tax. The group did not break down the contribution of the main operations – ferries, tugs and haulage and engineering interests – except to say that Cosens, its engineering subsidiary, had recorded "a small trading loss".

Red Funnel has another two weeks to publish new financial information, should it decide to split out the performance of the different divisions, or to issue a profits forecast for 1989.

Sally UK, which runs ferries between Ramsgate and Dunkirk, is offering 205p a share for Red Funnel, the trading name for Southampton Isle of Wight and South of England Royal Mail Steam Packet.

Earlier last week Sally had to clarify its position after Mr Michael Kingshott, the company's managing director, said its parent companies – Effoa-Finland Steamship and Johnson Line of Sweden – would be prepared to make £150m-£175m available for the ferry group if necessary.

Sally pointed out that this indicated a general commitment, and did not relate specifically to the bid for Red Funnel, which values the Southampton group at £20.9m.

Gestetner

Gestetner says its associate company Balez has declared its offer for Hanimex unconditional.

Lynx falls into loss in second half

Lynx Group fell sharply into the red in the second six months and for the full 1988-89 year ran up a loss of almost £1m at the pre-tax level.

One of the factors responsible for the loss was an almost virtual disappearance of turnover for TV audience measurement equipment.

The hoped-for development of sales of electronic hotel safes, which were not forthcoming, and the project for developing a new system to enable domestic electricity meters to communicate to central computers, which had not progessed sufficiently, were other factors contributing to the loss.

Turnover for the year to end March edged ahead to £6.94m (£6.37m).

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Anglo Group 9½pc Conv. Bond (Section: Banks).
Ashley Group 8.25p (Net) Cum. Red. Prf. (Foods).
Hambros 7½pc Pref. (Banks).
Invicta Sound (Leisure).
Molyneux Estates (Property).
Trace Computers (Electricals).
Treat (Foods).
Wensum Co. (Drapery & Stores).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims- Amcliffe, Edinburgh Oil & Gas, Mining & Allied Supplies, Reyvon, TR Pacific Inv.
Finals- Ashfield Group, Dunton.

FUTURE DATES

Interims-

ATA Selection	Sep. 1
Ansbacher (Henry)	Aug. 9
Beattie (James)	Sep. 5
EBC	Aug. 21
Hibernian	Aug. 17
Kleinwort Overseas Inv	Sep. 12
Life Sciences Intl	Aug. 8
March Group	Aug. 8
Newmarket Venture Capital	Aug. 11
Scacy Engineering	Aug. 14
	Sep. 7

Finals-

Chartermall	Aug. 8
Compto	Aug. 10
Howard Holdings	Aug. 14
Wentworth International	Aug. 16

Oceana profits downturn

PROFITS of the Oceana Consolidated Company, investment concern, fell from £479,000 to £69,000 pre-tax for the year to end-March. Turnover rose from £0.98m to £3.56m.

Exceptional provisions rose to £250,000 (£59,000) but tax credits fell from £150,000 to £7,000. Earnings emerged at 1.17p (5.28p) per share and the dividend for the year is a same-again 1.25p.

FINANCIAL TIMES STOCK INDICES

	Aug 4	Aug 3	Aug 2	Aug 1	Jul 31	Jul 28	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs.	86.87	86.87	87.03	87.20	87.32	87.16	89.29	83.75	127.4	49.18
Fixed Interest	98.04	97.80	97.80	97.17	97.43	97.23	99.59	95.21	105.4	50.53
Ordinary	1940.0	1924.0	1923.9	1909.8	1912.1	1924.8	1940.0	1447.8	1940.8	49.4
Gold Mines	202.9	199.9	193.5	192.0	187.5	193.6	206.0	154.7	734.7	43.5
FT-Act All Share	1184.92	1176.27	1177.16	1170.46	1173.25	1176.69	1184.92	921.22	1238.57	61.92
FT-SE 100	2327.5	2306.3	2307.8	2292.3	2297.0	2306.0	2327.5	1782.8	2443.4	986.9

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Magnet buy-out finance hits snag

THE underwriters of Magnet's £532m debt financing for its management buy-out are behind target in their efforts to syndicate the loans to other banks. A meeting of underwriters is expected to be held later this week as the original lenders are finding it tough to reduce their exposure to the levels originally planned.

Underwriters said they had only expected to syndicate about half their exposure, thus retaining a large chunk of the high-yield asset for themselves. Japanese banks are said to remain keen to participate, so in the end the lenders may not be forced to hold any more debt than they want.

Magnet's financing became the subject of intense speculation last week, bankers say, following news that MFI, the furniture retailer, was having difficulty meeting sales targets spelled out in its own agreements with lenders. MFI, in November 1987, completed the UK's largest leveraged buy-out valued at £718m.

While no one has suggested that Magnet is having difficulty meeting sales or profits targets, bankers have raced to compare the two deals because of the roughly similar business niches they both occupy and the sensitivity of both to rising interest rates and slower consumer spending.

Magnet's financing consists of a £300m senior debt tranche paying 1¾ per cent above Libor, a £72.5m bridge facility, £160m in senior subordinated debt carrying a margin of 3½ per cent over Libor and a £30m junior subordinated-term loan paying 4½ per cent above Libor.

At a presentation two weeks ago, sponsored by Magnet and by Bankers Trust, the buy-out team's adviser and chief lender, the company assured potential lenders that it would meet sales and profits targets called for in the company's business plan.

Other potential lenders have been questioning whether Magnet's growth estimates – prepared much earlier this year – were perhaps too optimistic for current economic conditions.

According to Magnet's business plan, it needs to achieve annual profit growth of 15 per cent in order to meet the current repayment schedule on its senior debt alone. It will have total interest costs in the nine-month period to March 31 1990 of about £53m, assuming full drawdown of the £490m long-term facilities and accrual of interest under those facilities, as well as some principal repayments to be met. The first of the latter, £10m, is due on September 30 1989.

In defending the financing, bankers point out that Magnet achieved 26 per cent profit growth in the year to April 1 1989 and 30 per cent profit growth in the year before that.

Still, bankers point out that one drawback to the Magnet deal is that it calls upon borrowed funds to finance a significant rate of expansion in addition to simply paying for the buy-out. If the expansion does not produce the expected results quickly enough, the deal could run into trouble. The number of high street outlets is expected to quadruple by March 31 1992 to more than 200 from the current 52, possibly too ambitious.

However, for those who have rushed to compare the two companies, it is necessary to note differences between them. While Magnet is largely a kitchens and DIY retailer, MFI specialises in pre-packaged self-assembly furniture. Also, lenders have been quick to point out that Magnet's financing includes £190m in two layers of mezzanine debt and an equity portion, a much larger cushion than is offered to senior lenders in the MFI deal.

Norma Cohen

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	3,415.9	0.0	280.6	12,356.9
Prev	2,990.5	100.0	187.8	11,115.1
Other	3,242.9	0.0	421.2	2,242.4
Prev	1,159.0	0.0	244.3	1,527.2
Secondary Market				
US$	21,544.2	1,416.6	4,244.9	8,044.8
Prev	20,135.4	922.2	5,362.0	8,760.1
Other	15,543.2	988.4	4,744.1	26,883.5
Prev	15,716.8	1,532.1	5,755.4	29,561.4

	Cedel	Euroclear	Total
US$	12,693.5	36,529.2	49,222.7
Prev	10,372.8	36,922.5	47,295.3
Other	20,366.7	31,490.8	52,857.7
Prev	22,206.3	34,289.4	56,495.9

Week to August 3, 1989 Source: AIBD

INTERNATIONAL BONDS

A miniature revolution takes place in French issues

FRANCE had more than its fair share of newspaper coverage in July as the bicentenary of its revolution was celebrated in style. A few privileged citizens, however, noticed that one subject worthy of attention slipped by almost unnoticed.

Despite the celebrations, and the resulting absence of many French investors who preferred to be on the beach, July witnessed the sudden expansion of new issue activity on the Euro-French franc market.

Hardly headline stuff, perhaps, but at least a revolution in miniature; syndicate managers and analysts alike believe that the heavy issuance revealed significant developments in tha market. The extent of those developments, however, is the subject of intense debate.

Last year, some FFr11bn of fixed-rate Euro-issues were launched. Already, 1989 has seen FFr20bn, of which FFr6bn was launcbed in July. One bank alone, Crédit Commercial de France (CCF), issued nearly FFr3bn of deals in July, inspiring its head of new issues to proclaim the market to be in good shape. Syndicate managers think the full-year figure could reach FFr30bn, or nearly treble last year's volume.

The July issues themselves were small in number, and compared with other international sectors, were still small in size with only the European Investment Bank FFr1bn 8¾ per cent six-year issue weighing in at size that would be considered very liquid in, say, the dollar sector.

Importantly, they coincided with a period of considerable foreign demand for French franc paper from a range of investors not normally interested in the currency. As Mr Antoine Labbé, bead of new issnes of CCF, said: "For at least a month, there has been a shift in the placement of Euro-French franc bonds. The demand for our FFr1bn deal for Eurofima, which we launched last Monday, was 90 per cent outside France."

Cynics say this partly reflects the likelihood that much of the paper remains unplaced, but Mr Labbé said there was interest from Germany, Switzerland, the Benelux countries, and, unusually, the Far East. Not surprisingly, several of the recent deals were for German banks, partly to take advantage of German funds' healthy appetite for French paper.

Syndicste managers were rather coy about the other reason for the deals, a wide window on the swap market which allowed the banks to borrow in floating-rate US dollars to achieva competitive funding costs of around 30 basis points below Libor. In the past, the market'a immaturity made swaps hard to come by.

In addition, some of the German borrowers have subsidiaries in France, and are understood to have kept a proportion of their deals in francs. They face an attractive long-term probability that the franc will depreciate against the D-Mark, allowing them to repay the principal cheaply.

Importantly, the recent deals also came against a background of a good performance by the Frencb government bond market. According to a recent forecast by Warburgs, the French bond market will continua to provide good returns for international investors in the next 12 months.

"Among the European markets, the primary case for France rests on the inflation record against Germany where the differential may reach zero. Growing recognition of the stability of the franc should, over time, lead to a further decline in the risk premium investors will require for holding French francs," the report said.

There has been a sharp narrowing of the spreads between French government bonds (OATs) and German bunds, from around 210 basis points to 170 basis points.

In the middle of the rally, some forecasters advised clients that OATs were becoming expensive compared with bunds, bnt their switch recommendations went awry wben money continued to pour into France.

Analysts see the 170 level as significant because the spread was similar in May this year and then widened again. This time, they believe the resilience of the Frencb economy and the Government's tight monetary policy and control of inflation will allow the spread gradually to narrow further.

Mr Richard Gray of UBS Phillips & Drew says: "On a long-term basis, we are looking at the top of a new trading range." The Warburg researchers agree, saying tbe bond yield differential might reach as low as 130 basis points.

The rally also raises questions about whether the Frencb market has changed, or whether tbere is merely the appearance of change – a debate worthy of the historical controversy over the nature of another revolution.

One of the main barriers to the development of the market was the widely-beld view that it was driven by domestic investors, in particular a handful of institutions which were accused of effectively controlling issues by extending or withholding demand.

This is a charge often levied against small markets whicb are maturing. Another good example is the Euro-sterling market, where a battle is still being fought between some issuing bouses and leading institutional investors which are accused of trying to dictate terms to the rest of the market.

The idea that it was tough for foreigners combined with the relative weakness of arguments in favour of the French franc to hold the market back. In the last 18 months, however, as foreign interest increased so tbe market's bad reputation diminished.

According to some analysts, the recent rally bas actually set the market back, proving that the domestic institutions with their buying power still have the primary influence over events.

This is debatable. If new issue volumes of Eurobonds continue to grow, then the forces of competition should gradually reduce the power of the domestic investors.

Again, a comparison witb the Euro-sterling sector is relevant. Many UK inatitutions objected to the terms of a Republic of Italy £400m long-dated deal wben it was launcbed in April by Credit Suisse First Boston.

By the same token, tbe future of the Euro-French franc sector looks good. As the yields demanded by the market for issues in, for example, the dollar and sterling sectors become probibitive to many borrowers, competing sectors like francs are set to expand.

In addition, Euromarket borrowings look increasingly attractive on both financial and publicity grounds for larger French corporations looking to boost their international profiles as European markets move inexorably towards integration.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Daicel Chemical Ind‡♦	300	1993	4	3¼	100	Nomura Int.	3.750
Joshin Denki Co‡♦	100	1993	4	3⅞	100	Nomura Int.	3.875
Kubota Ltd.‡♦	300	1993	4	3¼	100	Nomura Int.	3.750
Sankyo Aluminium‡♦	150	1993	4	3⅞	100	Daiwa (Europe)	3.875
JDC Corp.‡♦	100	1993	4	3⅞	100	Nikko Secs.	3.875
Tsumura & Co.‡♦	100	1993	4	3⅞	100	Nikko Secs.	3.875
Daio Paper Corp.‡♦	150	1993	4	3⅞	100	Yamaichi Int.	3.875
Nippon Stainless Steel‡♦	100	1993	4	3⅞	100	Yamaichi Int.	3.875
Nisshin Steel‡(b)	400	1993	4	(4¼)	100	Nomura Int.	★
Nisshin Steel‡(c)	200	1993	4	(4¼)	100	Yamaichi Int.	★
Centralsecured Inv.†♦(d)	70	2000	11	20bp	100	Morgan Stanley Int.	-
Denmark♦	150	1994	5	8¼	101⅜	Nomura Int.	7.906
British Gas Int.Fin.♦	350	1999	10	8⅜	101.10	Merrill Lynch Int.	8.210
Sprint 7†♦	20	1993	4	(e)	100.12	Fuji Int. Finance	-
Bank of Ireland⊕♦(f)	300	Undated	-	50bp	100	Salomon Bros. Int.	-
Nippon Sanso KK‡	400	1993	4	(4¼)	100	Yamaichi Int.(Eur.)	★
BASF Finance♦	300	1996	7	8	98¼	Deutsche Bk.Cap.Mkts	8.048
BP Capital BV♦(j)	25	1990	1	13	101¾	CSFB	11.057
Flash Ltd. Series I†♦(o)	30	1993	4	15bp	100.10	Sanwa Int.	-
Flash Ltd. Series J†♦(p)	30	1993	4	15bp	100.10	Sanwa Int.	-
Sekeisui Int. Finance♦	20	1992	3	8⅝	101⅜	Sanwa Int.	8.091
Tokyu Car Corp.‡	130	1993	4	(4⅜)	100	Yamaichi Int.(Eur.)	★
CANADIAN DOLLARS							
GMAC Canada♦	100	1995	6	10	101½	Scotia McLeod	8.659
Electricite de France♦	150	1999	10	9¼	101.90	Paribas Cap.Mkts.	9.495
Merrill Lynch & Co.♦	75	1991	2	11	101.80	Merrill Lynch Int.	8.963
D-MARKS							
Tsumura & Co.‡♦(m)	100	1994	5	1¼	100	DG Bank	1.750
Daio Paper Corp.‡♦	100	1994	5	1¼	100	Deutsche Bank	1.750
Prima Meat Packers‡	150	1994	5	(1¾)	100	Commerzbank AG	★
SWISS FRANCS							
Hyakujushi Bank★★§♦(g)	130	1993	-	½	100	Credit Suisse	0.501
Kawasaki Elec.Co.★★§♦(h)	42	1994	-	0	100	Banca del Gottardo	-
Lec Inc.★★§♦(i)	95	1993	-	½	100	Royal Trust Bank	0.501
Nippei Toyama★★§♦(k)	90	1994	-	¼	100	Yamaichi Bank(Switz)	0.250
Tsubakimoto Eng.★★§♦(l)	50	1993	-	¼	100	Nomura Bank(Switz)	0.250
Kasai Kogyo Co.‡♦	50	1993	-	2⅜	100	Handelsbank NatWest	2.375
Nisshin Steel Co.★★§(a)	300	1994	-	(½)	100	Banque Paribas	★
Daishinku Corp.★★§(q)	90	1994	-	(½)	100	SBC	★
Michinoku Bank★★§(r)	60	1993	-	½	100	Credit Suisse	0.500
Tasaki Shinju Co.★★‡	80	1994	-	2⅞	100	Banca del Gottardo	2.875
SWEDISH KRONA							
WestLB Finance♦	300	1994	5	11⅛	101⅞	WestLB	10.622
FRENCH FRANCS							
Eurofima♦	1bn	1999	10	8⅝	101⅞	CCF	8.341
Bayerische Vereinsbank♦	500	1996	7	8⅝	101.50	CCF	8.334
Norsk Hydro AS♦(s)	300	1995	5	8¾	101⅝	Paribas Cap.Mkts.	8.394
YEN							
Desjardins du Quebec♦	10bn	1990	1	5.3	100.80	Yamaichi Int.	4.464
Crediop Finance♦(n)	3bn	1992	3	8	101⅝	New Japan Secs.	7.377
Skopbank♦(n)	3bn	1990	1	7	100⅞	Nippon Credit Int.	6.072
STERLING							
World Bank♦	100	1994	5	10⅞	101.17	S.G.Warburg Secs.	10.561

♦Final terms. ‡With equity warrants. §Convertible. ⊕Variable rate note. †Floating rate note. ★★Private placement. a)Indicated yield to put 4.039%. b)European tranche. c)Asian tranche. d)20bp over 6-month Libor. e)6-month Libor + 0.135%. Re-packaged ex-warrants FRN. f)50bp over 3-month Libor. Alternative coupon 100bp over Libor years 1-10, then 140bp. Issue amount increased from $200m to $300m. g)Yield to put 3.869%. h)Yield to put 3.873%. i)Yield to put 3.657%. j)Dual currency issue. k)Yield to put 3.792%. l)Yield to put 3.815%. m)Each DM5,000 bond has A&B warrants. A exercisable for 3 years, B for 5 years. n)Redemption linked to Nikkei Stock index. o)15bp over 6-month Libor. p)15bp over 3-month Libor. q)Indicated yield to put 4⅛%. r)Yield to put 3.87%. s)Fungible with FFr600m launched Jan. 1989. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDITS

Jobs data aid shift in perception

WHAT IS the difference between stagflation and a "soft landing"? Wall Street began to answer this conundrum on Friday. The difference seemed to be 25 basis points on interest rates, three yen on the dollar and a few billion dollars oot of the pockets of hullish bond investors all over the world.

But that was just the first, admittedly not very amusing, answer. In the months and years ahead, the wags on Wall Street will have plenty of opportunities to come up with something wittier, though possibly far more expensive for holders of long-term bonds.

This is because the real significance of the July employment release that wrought such destruction in the bond market on Friday lay not in its fairly unsurprising numbers.

The increase of 169,000 in July's payroll employment was essentially indistinguishable from the Wall Street consensus estimate of 158,000. The 0.1 per cent decline in unemployment was a statistical irrelevance due solely to a smaller estimated workforce.

The "bad news" which bond analysts initially pounced on was the npward revision of June's employment growth from 180,000 to 250,000, but this was the third such revision in three months and therefore hardly a bolt from the blue. The numbers on working hours and average wages, which deserve far more attention than the headline employment figures, were somewhat disquieting, but eveo these were entirely consistent with recent treods, as discussed below.

Why theo the 2½ point plunge in the Treasury's long bond, which erased in a few minutes all of the gains of the previous month and which may have re-estahlished the 8 per cent yield level on the long bond as a significant technical barrier?

Perhaps the Labour Department's announcement was one of those onpredictable watershed eveots which suddenly make investors stand back and qoestion the fundamental assumptions which have driven a market trend that has gone too far.

The last such turning point was Mikhail Gorbachev's unexpected announcement of big unilateral arms reductions at the UN General Assembly last November. The bond market, which had been falling without an obvions floor in sight, stopped in its tracks and then surged inexplicahly by more than two points.

The so-called "Gorby rally" was ridiculed hy serious commentators (ourselves incinded) as having absolutely no foundation in economic realities. And yet the Gorby rally turned out to be the start of the biggest bond market advance in three years.

In retrospect, the Gorby rally generated what used to be described by pop psychologists as a "gestalt shift." Reality did not change, hnt suddanly investors realised that the pattern of information before them could be seen in an entirely different way. What previously appeared to be a bat suddenly looked like a pair of rabbit's ears.

Until the Gorhy rally, the markets had seen a feeble new administration led by a president without much public support and certainly with no clear mandate either to carry on the policies of Ronald Reagan or to correct the ones which had gone wrong. Suddenly it became apparent that a pragmatic president without ideological predispositions was just what the historical moment required.

Even on the economic front, the problems and challenges left behind by Ronald Reagan suddenly began to look less alarming than they had even a month before. Perhaps President Bush was right after all to assume that the hudget and trade deficits would take care of themselves.

To say precisely how the problems might be solved no longer seemed to be necessary. Perhaps a new detente with the Russians would slash military spending. Perhaps faster growth in Europe and Japan would help to correct the trade imbalance, or maybe another collapse of Opec would cot imports and provide a painless opportunity to raise taxes. One way or another, something would turn up.

This latter-day Micawberism allowed the US fixed-interest markets to rise spectacularly in the past eight mooths, despite a steady flow of economic news – particularly on inflatioo – that might have beeo the stuff of bond investors' nightmares.

Just possibly, this period of complacency may be coming to an end. For behind the optimism of the hull market in bonds there has been a perception of just the kind that might be susceptible to a sudden shift in gestalt.

This is the idea that the Federal Reserve Board will steer the economy into a "soft landing" which will be characterised by moderate inflation, subdued growth and gradual reductions in financial imbalances.

July'e employment figures and the bond market's reaction to them on Friday did not discredit this proposltion, hut they did present it in a new light.

The figures did not suggest any kind of economic boom or a return to the alarming inflation experienced earlier this year. In fact, they were perfectly consistent with the "soft landing" acenario as it was originally understood.

The rate of joh growth, which has averaged 209,000 per month in the past three months, was almost identical to the three months before that and suggested that the slow but steady economic growth of the first two quarters of 1989 was carrying on into the third.

The average workweek, too, was exactly unchanged on a three-month moving average basis and the rising oumber of aggregate weekly houre worked simply reflected the gentle growth of the economy and total employment.

If these figures so disappointed investors, tha clear implication was that last week'a bond prices reflected the anticipation of something other than a soft landing.

But, amid all the talk of soft landings, what else did the market expect? Two possible answers suggest themselves.

In recent months, a small but influential group of analysts has started forecasting an all-out recession. Led by the hard-core monetarists who are convinced that a recession is inevitable because of the slow growth of the money supply over the past 18 mooths, this group believes that the Fed's recent easing moves have come too late.

For them, July's employment figures must obviously have been a disappointment. These monetarists and their allies, however, are a minority. Most bond investors still feel that the Fed is both willing and able to prevent the economy from crash landing in a full-scale recession.

Why then are they disappointed by figures like last Friday's, which suggest that the Fed has calibrated its monetary policy with remarkable precision to ensure a slow hut steady economic expansion?

The most convincing explanation lies in the data on wages and inflation. Friday's employment report showed that average hourly wages jumped by 0.8 per cent, or 10.4 per cent at an annual rate, in the month of July.

As usual, the picture is greatly exaggerated hy annualising a single month's figures. Comparing the last three month's wages with the previous three months shows wage inflation running at a much more subdued 3.4 per cent annually.

The fact remains, however, that wage gains are not decelerating, whether measured as three-month, six-month or annual moving averagea. Meanwhile, the increases in total compensation (including medical and other benefits) and unit labour costs, continue to outrun wages by about 2 per cent annually, and no let up in sight.

To a detached observer, this fairly rapid growth in labour costs ia hardly surprising, given the low level of unemployment at present and the poor prodnctivity growth record of the US economy. Indeed, the moch-vaunted soft landing looks like a rerun of the stagflation of the mid-1970s.

Admittedly, the combination of stagnation and inflation which is now in prospect for the US economy seems relatively benign compared with the experieoces of the last decade. Maintaining hoth unemploymeot and inflation at around 5 per cent for as long as possible seems a perfectly creditable goal for the Bush Administration and the Fed – and US official spokesmen can hardly he faulted for favouring the term "soft landing" rather than that ugly word "stagflation" to describe their policies.

However, for the investor who holds a bond yielding 8 per cent when money is losing 5 per cent of its value annoally, the gestalt shift from soft landing to stagflatioo could be a painful matter.

Anatole Kaletsky

UK GILTS

Unexpected impact from sterling

THE UK gilts market was reminded last week that, despite optimism aboot the UK economy, it remains vulnerable to sterling movements.

What appeared to be an npward trend in gilts prices had changed direction hy Friday as sterling came under downward pressure, ending down four pfennigs from the close a week before. For foreign investors at least, the relatively high yields on offer had lost some of their shine.

Yet the upward momentum does not seem to have disappeared completely. Market analyste are confident that declines in US Treasury bond yields will continue to provide internatiooal support for UK gilt prices. Gloom abont the outlook for the UK economy has eased slightly in recent weeks amid some encouraging economic statistics.

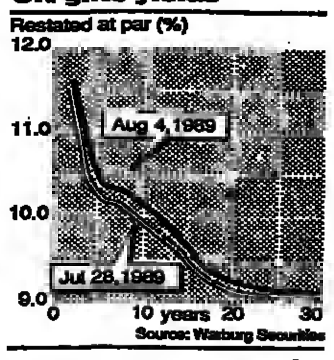
At the same time the pound's slide puzzled commentators. There were some large sterling selling orders reported from Europe. But biggest influences seemed to be, first, inaccurate rumours that the Bank of England was selling pounds and, second, uncertainty about the curreocy implications of large provisions for third world debt by UK clearing banks.

The political environment in the run-up to the general election is increasingly likely to become an issue in the next year or so.

Nobody in the gilts market is worrying yet aboot whather Mrs Thatcher can be returned to power for a fourth term. Nor have the rumpus surrounding last month's Cabinet reshuffle or Labour's lead in opinion polls done more than jolt the market. But the side-effects of these knocks to the Government may soon start to feed through into areas of direct relevance to the gilts market.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

Besides the impression on sterling, there could be implications for the rate at which Government debt is repaid. Mr Norman Lamont, chief secretary to the Treasury, has a tough job in matching the budget-trimming prowess of his predecessor, Mr John Major. This year slower growth will curb revenues while pressure for increased spending hy departmental ministers will be greater than ever.

So far forecasts for the 1989-90 financial year public sector debt repayments have been adjusted only a little lower, mainly in line with downward revisions to projections of economic growth. Greenwoll Montagu and Hoare Govett at £18bn and £15bn respectively have not changed since April. Warburgs has lowered its forecast from £14.4bn in April to about £13bn.

There are other areas of political uncertainty. Mr Nigel Lawson, the Chancellor, is still in office but it is unclear how Mr Major's appointment as foreign secretary leaves Cabinet disputes about the timing of Britain's taking full membership of the European Monetary System.

Of course upsets for the Government are not bad news for all market participants. With the market in decline and turnover weak, a Labour Government offers a way out. "The gilt market would be delighted," said one analyst last week.

Funding policy

CLOSELY linked to speculation about the size of this year's public sector debt repayments is the funding debate. With broad money continuing to grow at a annual rate approaching 20 per cent, some analysts are arguing for a return to a policy of "overfunding" – whereby the Government buys back fewer gilts than needed to match the amount of debt it is repaying.

Mr Tim Congdon, in Gerrard & National's August economic review, argues that funding policy is an effective means of influencing bank deposits and can be used to reinforce an anti-inflationary monetary policy. He says the Government decision to end overfunding in 1985 was "causally relevant" to the subsequent boom in economic activity and the rise in inflation.

Overfunding, it can be argued, would raise long-term interest rates, which throughout the past two years have remained stable despite rises in short-term rates. This might in turn have a constraining influence on broad money growth.

However, a note accompanying Oxford Economic Forecasting's outlook for the UK economy, published last week, suggests any effects would be small.

By re-estimating a variation on its equation for long-term interest rates, OEF finds that the share of Government debt in non-bank private sector wealth can positively influence long-term interest rates and that overfunding would push rates higher.

But even if money market assistance returned to the 1985 level, long-term interest rates would rise by only about 0.5 percentage points, the calculations show. Very large volumes of overfunding would therefore be required to produce a sharp rise in rates.

Ralph Atkins

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
A.B.N. 8½ 91	150	94¾	+⅛	9.06
AETNA LIFE & CAS 7⅛ 16	200	97½	+⅛	7.98
AHF C O/S. FIN. 11⅞ 94	100	102⅞	+⅛	11.07
ALBERTA PROVINCE 7⅞ 91	750	97⅞	-⅛	8.48
ALBERTA PROVINCE 9⅞ 95	600	104⅞	-⅛	8.47
ALCOA AUSTRALIA 11 92	80	102	0	10.15
AMERICAN GENERAL 9⅞ 95	100	103½	-⅛	8.94
AUSTRALIA 11⅞ 90	100	102⅞	+⅛	9.14
AUSTRALIA 11⅞ 00	100	109⅞	-⅛	9.80
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ONTARIO HYDRO 11⅞ 94	200	110⅞	-⅛	8.62
ONTARIO HYDRO 11⅞ 90	200	102⅞	0	9.04
ONTARIO HYDRO 13½ 91	100	106⅞	-⅛	8.93
ONTARIO HYDRO 15 92	150	115½	0	8.85
OSTER KONTROLLBANK 8½ 93	200	98⅞	-⅛	8.50
OSTER KONTROLLBANK 9⅞ 92	200	102⅞	-⅛	8.35
PACIFIC GAS & ELEC 12 00	75	112½	+⅛	9.99
PENNEY J C 12⅞ 91	100	101⅞	-⅛	12.06
PEPSICO INC 7⅞ 93	200	95⅞	0	8.90
PEPSICO CAPITAL 0⅞ 91	100	95⅞	-⅛	9.11
PETRO-CANADA 7⅞ 96	200	93⅞	-⅛	8.61
PHILIP MORRIS 9⅞ 98	200	102⅞	-⅛	9.44
POSTIPANKKI 11⅞ 90	75	100⅞	0	9.46
PROCTER & GAMBLE 10 95	150	102⅞	-⅛	9.40
PRU RLTY SECS 0 99	365	46⅞	+⅛	8.48

	Issued	Bid price	Chg on week	Yield
QANTAS AIRWAYS 8⅞ 96	97	99⅞	-⅛	8.70
QUEBEC PROV 13 90	150	104⅞	0	9.22
QUEENSLAND GOVT 11⅞ 89	100	200½	0	9.71
RALSTON PURINA 11⅞ 95	150	109⅞	-⅛	9.50
REYNOLDS R.J. 10⅞ 95	100	97⅞	-⅛	10.95
RICHARDSON-VICKS 11⅞ 93	125	103⅞	-⅛	10.47
ROCKWELL INT 9⅞ 90	200	100½	0	9.26
S.A.S. 10⅞ 95	150	104⅞	-⅛	9.05
SARA LEE 9⅞ 93	150	100⅞	-⅛	9.26
SASKATCHEWAN 7 91	125	97⅞	-⅛	8.94
SASKATCHEWAN 8⅞ 92	150	99⅞	0	8.92
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TEXACO CAPITAL 11⅞ 94	200	—	—	—

THORN EMI 5⅞ 04 £	103	115	41⅞	2.30

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED-SIGNAL 6⅞ 93	20.0BN	102⅞	0	5.91
AUSTRIA 4⅞ 94	30.0BN	98⅞	+⅛	5.22
AVON CAPITAL 6⅞ 91	25.0BN	100⅞	0	6.61
BARCLAYS O/S INV 6 96	40.0BN	103⅞	-⅛	5.41
B.F.C.E. 5⅞ 96	20.0BN	102⅞	-⅛	5.37
CANADIAN PACIFIC 6⅞ 96	10.0BN	104⅞	+⅛	5.02
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on AUGUST 4

Banks organise standby finance deal for Mexico

By Stephen Fidler and Richard Johns

A GROUP OF commercial bank lenders to Mexico is attempting to put together $400m to $500m standby financing to provide financial support in the case of a fall in the oil price.

The financing would be voluntary, tied to commercial interest rates and also probably include an element of World Bank co-financing.

The credit, which would become available if oil prices drop below $10 a barrel, would be separate from the debt reduction agreement between Mexico and all its bank creditors, the basic points of which were agreed with the 15 leading creditors last month.

Bankers are describing it as a "club deal," meaning it would be provided by a relatively small group of banks, but exact details have not been finalised.

The financing is meant to be part of a programme which cushions Mexico from the effects of oil price fluctuations.

The International Monetary Fund has based its calculations on an oil price of $12 a barrel. If prices exceed that the extra funds will flow into Mexico's reserves and not into spending. If prices fall below that, further government action will not be needed until it falls to $10 a barrel.

The IMF provided Mexico with a special contingency financing facility of about $575m related to oil prices which it drew down about two months ago. While this has exhausted Mexico's existing entitlement to resources under contingency arrangements, it is possible that in the future further financing could be arranged.

The debt reduction agreement between Mexico and its leading banks provides banks with a so-called recapture clause, allowing them to receive extra benefits after 1996 in the event of higher inflation-adjusted oil prices.

The complicated formula for the amount to be recaptured in essence sets a $14 base price and adjusts it for US inflation and the average daily export volume, with a base of 1.25m barrels per day.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds	8.87	8.94	9.00	10.00	6.27
Three-month Treasury bills	8.11	8.11	7.96	9.59	6.96
Six-month Treasury bills	8.11	7.89	7.88	9.59	7.42
Three-month prime CDs	8.55	8.60	8.97	10.15	6.77
30-day Commercial Paper	8.60	8.70	9.05	9.70	6.55
90-day Commercial Paper	8.40	8.40	8.75	10.05	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	99[illegible]	-1[illegible]	7.93	7.70	7.99
20-year Treasury	111[illegible]	-[illegible]	8.05	8.01	8.11
30-year Treasury	108[illegible]	-1[illegible]	8.07	7.98	8.04

Money supply: In the week ended July 24 M1 fell $1.3bn to $776.2bn.

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 3/8/89	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	149.88	5.06	149.93	148.14	148.67
Government Bonds	150.28	4.87	149.71	148.48	149.41
Municipal Bonds	151.50	5.31	151.19	149.98	150.95
Govt.-guaranteed Bonds	152.36	5.33	152.05	150.99	152.09
Bank Debentures	143.66	5.07	143.29	141.70	141.65
Corporate Bonds	151.88	5.33	151.50	150.27	148.67
Yen-denom. Foreign Bonds	155.99	6.11	155.86	153.97	152.56
Government 10-year†	4.98	–	5.01	5.04	4.87

† Estimated par yield

Source: Nomura Research Institute

Losses continue at Pan Am parent

By Karen Zagor in New York

PAN AM Corp, the parent of struggling Pan American World Airways, reported another quarter of net losses, revealing that the group is still far from a long-awaited financial turnround.

Pan Am's net loss for the second quarter of 1989 was $7.7m or 5 cents a share against a loss of $5m or 4 cents a year earlier. Operating losses were $48.6m against profits of $14.9m the previous year. Revenues fell 2 per cent to $908.4m from $925.4m.

The 1989 loss includes a gain of $92.1m on the sale of the contract services subsidiary and expenses of $28.2m associated with the company's bid for NWA.

The airline unit's second quarter net loss was $93.4m compared with a loss of $19.9m a year earlier. Revenues fell 5 per cent to $824.5m from $869.1m, while operating expenses increased 3 per cent to $891.2m from $862.7m.

In contrast, revenues of the Pan Am Shuttle and Pan Am Express, a commuter airline, rose 48 per cent to $83.2m from $56.3m.

The company attributed the airline's recent losses to the aftermath of the Lockerbie crash and to a decline in Pan Am's traffic on its internal German services because of new competition.

Pan Am has cut fares in an attempt to lure back passengers who had defected to other carriers after the Lockerbie bomb disaster. Revenue passenger yields for the quarter fell 8 per cent. Traffic increased by 2 per cent.

Mr Thomas Plaskett, chairman and chief executive, said: "We are determined to stay on course with our efforts to restore Pan Am's competitive position despite these unfortunate setbacks."

For the first half, Pan Am Corporation reported a net loss of $158.8m against a loss of $88.4m the previous year. Operating revenues fell 3 per cent to $1.64bn while operating expenses rose 5 per cent to $1.82bn. The operating loss for the period was $178.3m from a loss of $46.2m a year earlier.

Prime accepts reduced bid price

By Anatole Kaletsky in New York

PRIME COMPUTER, the Massachusetts minicomputer group which has spent most of the last year fighting a $1.1bn bid from MAI Basic Four, a smaller computer company, suffered a further setback on Friday.

J.H. Whitney, the leading venture capital firm which had agreed to a white knight leveraged buy-out to rescue Prime from MAI's advances, said it was reducing its $21.50-a-share cash offer to $20.

The price reduction followed Whitney's inability to arrange financing for the higher offer after Prime announced poor second-quarter results at the end of July.

Mr David Dunn, Prime's chairman, said he was disappointed by Whitney's failure to complete the original $21.50-a-share merger agreement, but added that the board was recommending acceptance of the reduced offer because it was still superior to the $19.50 offered by MAI Basic Four.

Whitney officials said they were withdrawing the original offer under pressure from the firm's lead bankers, Bank of Boston and Chemical Bank. The banks had concluded after Prime's second-quarter results that it might not have sufficient cash flow in the short term to support the financing required for the full $21.50 offer, which would be worth about $1.2bn in all.

Prime's second-quarter report revealed a 5 per cent decline in revenues and a net loss of $19m, compared with a profit of $7.2m a year ago.

Prime, which in the early 1980s was one of the most successful of the new generation of US high technology companies, enjoying revenue growth of 100 per cent annually for several years running, said the loss was caused primarily by $27.3m in non-recurring charges relating to the company's battle for independence.

Ironically, the largest element in the charges was an expense item of $20m to reimburse Whitney for its financing and legal costs. Last year Prime paid $58.2m in special charges, mostly connected with its defences against MAI.

In addition to the one-time charges, Prime said its second-quarter revenues were badly affected by order deferrals caused by the uncertainty among customers and staff resulting from the two competing tender offers from Whitney and MAI Basic Four.

Prime also said its revenues would have been $11m higher and its operating profits $2m to $4m better had it not been for the rise in the dollar during the second quarter compared with the first quarter.

According to several analysts on Wall Street, the banks' refusal to finance the full $1.2bn offer Whitney originally made for Prime reflected not only these temporary factors but also more fundamental concerns about the worsening prospects for the increasingly competitive US computer industry in the years ahead.

AFP wins control of three Chase units

By Chris Sherwell in Sydney

AFP, the Australian-owned investment group which controls Gestetner in the UK, has pulled off a minor coup by winning effective control of three Australian companies which are part of Chase Corporation, the troubled New Zealand group.

The three are Hanimex, which operates a photographic equipment distribution business; Reil, an investment company; and Wormald, the fire safety equipment group. The acquisitions are all the result of Chase's deepening financial difficulties.

In separate events last week:

● Chase's bankers succumbed to an AFP ultimatum to accept its A$2 per share offer for Hanimex by Friday. The offer, valuing Hanimex at around A$150m (US$115.3m), was made through a joint venture between AFP and Gestetner, and AFP plans to bring the Gestetner and Hanimex networks together.

● AFP revised its plans for Reil, in which Chase held a stake of around 69 per cent, by making a direct bid of A$2.50 per share which quickly secured acceptances from Chase's bankers. AFP also bought shares in the market to give it an estimated 75 per cent of the company and, in turn, 43 per cent of Wormald, Reil's major asset.

AFP is listed in Australia, but registered in the UK and based in Monaco. Its latest moves came in the wake of another significant development, the unwinding of Petitio, AFP's joint venture with Goodman Fielder Wattie, the Australasian food giant.

Petitio's main asset is 318m shares in Elders IXL, and these are being offered to Elders shareholders at A$3 a share. The offer is underwritten by Harlin, a vehicle controlled by Elders directors, and will clearly replenish AFP's cash reserves.

AFP said at the weekend that Wormald would remain a listed company, but one in which AFP had a minority but controlling shareholding. It would continue to be run by Mr Bob Mansfield, chief of Reil. Hanimex, on the other hand, would become a wholly-owned subsidiary of Gestetner but would remain a stand-alone photographics business.

Control of Hanimex was secured despite suggestions that other bidders were in the wings and at a value significantly less than recent estimates have suggested. Reports yesterday said that the group's formal response to the AFP offer, due out this week, would put a value of up to A$2.25 a share. Also due out this week are Hanimex's results.

Chase, still 20 per cent-owned by AFP, is a pale shadow of its former self when it was run by Mr Colin Reynolds, the entrepreneur. Its property interests in New Zealand are now being run by statutory managers.

Grupo Torras surges 82% to Pta8.95bn

By Our Financial Staff

GRUPO TORRAS, the Spanish industrial holding company in which the Kuwait Industrial Office has a 40 per cent stake, has reported an 82 per cent rise in consolidated pre-tax profits to Pta8.95bn ($76.1m) for the first half of 1989 from Pta4.91bn a year earlier.

The group, formerly known as Torras Hostench, recorded sales for the same period of Pta231.1bn, comprising Pta171bn from its chemicals side, Pta34.3bn from paper activities and Pta25.8bn from its food business. Earnings per share increased 36 per cent to Pta91 from Pta67 last year.

Mr Javier de la Rosa, vice chairman, said all areas of the company had reached their performance targets. He said the programme of disposals on the chemicals side was proceeding successfully.

In June, Torras sold a 3 per cent stake in Ercros, its chemicals and fertilizer division, to Banco Hispano Americano. It has also sold Doctor Andreu, a pharmaceutical company, to Hoffmann-La Roche, the Swiss chemicals group, for Pta9.4bn.

Mr de la Rosa said: "Each of our subsidiaries is now in advanced negotiations with major European counterparts which are expected to result in significant strategic purchases and sales of partial or controlling stakes to the benefit of our shareholders."

Mr de La Rosa said in June that the group could cut by half both its 100 per cent stake in Torraspapel, its paper subsidiary, and its 40 per cent holding in Ercros while building up Ebro, its 51 per cent owned food division.

Ebro's pre-tax earnings for the year ended April 30 increased 60 per cent to Pta12.3bn from Pta7.69bn.

Battle for Steinberg moves to the courts

By Robert Gibbens in Montreal

THE contest for control of Steinberg, the Canadian food distribution and property group, has moved to the courts.

Oxdon Investments, the Toronto bidder led by Unicorp Canada, has asked the Quebec Superior Court to declare invalid a rival offer by the Caisse de Depot and Socanav.

Both groups have bid more than C$1.3bn (US$1.11bn) for all Steinberg's voting and non-voting stock. Oxdon is offering $75 per voting share and $53 per non-voting share and the Caisse-Socanav $75 and $51 respectively, but Caisse claims victory because it has exercised an option to buy 52 per cent of the voting shares from the Steinberg family.

Cetus $14.3m in loss

CETUS, the California biotechnology company, has reported increased fourth-quarter losses of $14.3m against $9.37m a year earlier, boosting the loss for the year ended June 30 to $49.9m from a deficit of $22.6m a year earlier, AP-DJ reports.

The company said the increased loss in 1989 was due principally to the decrease in research and development funding from Cetus Healthcare Partnership II and increased spending to build the sales, marketing and manufacturing infrastructure to launch the company's first proprietary pharmaceutical product, Proleukin interleukin-2.

Sun and Philips link

SUN Microsystems, the US workstation company, will announce tomorrow a manufacturing agreement with Philips of the Netherlands for semi-conductors, Reuter reports.

Analysts said Philips would make chips based on the Sparc technology it will license from Sun.

Sun said the two companies had plans for "32-bit derivatives for a variety of applications," probably for consumer products.

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AUTHORISED UNIT TRUSTS

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows. ♥ - 0001 to 1100 hours, ♣ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD						01-405 8331
Central & Equity	5	64.31	67.18	71.46	6.66	41599
European	5	72.08	72.48	77.10	1.09	46305
Far Eastern	5	64.90	65.04	69.18	0.64	46304
Growth Inc	5	90.60	94.20	100.21	1.39	41600
Growth Acc	5	90.60	94.20	100.21	1.39	-
Income Inc	6	84.65	86.85xd	92.39	4.61	41601
Income Acc	5	84.76	86.95xd	92.50	4.61	-
Property Share	5	56.16	56.16	59.87	0.99	41602
Smaller Co's	5	60.44	61.06	65.13	1.46	41603
Nth American	5	63.33	63.33	67.73	1.60	40289
International	5	49.31	49.31	52.73	1.40	40210
Wright Seligman Fund Mngrs Ltd (1000)H						
11 Bloomfield St, London EC2M 7AY						01-588 0592
Growth	5	111.60	111.60	116.60	4.03	40404
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pk, Fenay Bdge, Huddersfield						0484 602250
Yorkshire General	5¼	65.85	68.33	72.69	2.49	41405
YITM UK Eqty Inc Tst	5¼	62.93	65.04	69.19	4.92	41406
YUTM Intl Grth Tst	5¼	52.98	52.98	56.56	0.75	41195

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	Yield Gross	City-line
Baillie Gifford & Co Ltd				
Int'l Exmt June 7	485.3	503.8	-	40105
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Inv Fund July 31		538.95	4.56	40252
Fxd Int Sec July 31		142.85	10.07	40252
Deposit July 31		100.00	13.25	40253
Charinco/Charishares‡ (1000)F				
33 King William Street, EC4R 9AS				01-280 2800
C'inco Inc Aug 2	167.8	172.1	10.19	40254
C'inco Acc Aug 2	688.5	706.3	10.19	40255
C'share Inc Aug 2	159.4	165.3	3.90	40256
C'share Acc Aug 2	175.1	181.6	3.90	40257
Charities Official Invest. Fund‡‡				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Income July 31		516.04	4.79	40258
Accum July 31		1714.96	-	40259
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American Aug 2	149.2	153.3	1.47	40368
Managed Aug 2	132.8	144.0	2.00	40369
Japan Aug 3	147.8	151.9	0.14	40370
Pacific Aug 4	458.7	471.3	0.21	40371
Sm Jap Cos Aug 4	289.9	297.9	0.10	40372
Fidelity Investment Services Ltd				
Mngd Pens P'folio	133.7	157.5	1.09	-
Robert Fleming Asset Mngmt Ltd				
Am Exempt Aug 1	£424.08	430.30	1.87	40456
Gen Exempt Aug 1	£131.62	134.38	3.45	40457
Jap Exempt Aug 1	£675.17	688.70	0.48	40458
Pacific Exempt Aug 1	£92.95	94.56	3.58	-
Indexed Exempt Aug 3	£121.90	125.00	3.85	-
O'seas Indxd Exmt Aug 2	£113.46	115.91	1.94	-

	Bid Price	Offer Price	Yield Gross	City-line
Albany Life Assurance Co Ltd—Contd.				
Sunrise Metro	124.5	131.0	-	-
UK Metro	123.6	130.1	-	46538
N Am Pn Fd Acc(z)	259.9	273.5	-	41713
Pac Basin Fd Acc(z)	181.3	190.8	-	41714
Property(z)	579.4	609.9	-	41715
Mlple Inv Pens Acc(z)	1521.0	1601.1	-	41717
Broker Funds				
Prof. Pen. Fd	101.4	106.7	-	41718
YRA Strategy	122.9	129.3	-	41719
YRA Performance	105.7	111.2	-	-
Langham Dollar ($E)	141.1	148.5	-	41720
Allied Dunbar Assurance Plc				
Allied Dunbar Ctr, Swindon SN1 1EL				0793 514514
Fixed Int. Dep. Acc	263.7	277.6	-	41723
Equity Acc	896.6	943.8	-	41724
Property Acc	507.7	534.5	-	41725
Far East Acc	212.2	223.4	-	41726
European Acc	24.0	25.3	-	41727
Managed Acc	702.0	739.0	-	41728
Managed Cap	397.4	418.4	-	41729
O'seas Earnings Acc	596.9	628.4	-	41730
Gilt Edged Acc	318.9	335.7	-	41731
American Equity Acc	475.1	500.2	-	41732
American Man. Acc	219.5	230.9	-	41733
American Prop Acc	145.8	153.5	-	41734
Pen. F.I. Dep. Cap	290.9	306.3	-	41735
Pen. F.I. Dep. Acc	500.9	527.5	-	41736
Pen. Prop. Cap	594.0	626.2	-	41737
Pen. Prop. Acc	1131.5	1191.1	-	41738
Pen. Man. Cap	862.2	907.6	-	41739
Pen. Man. Acc	1638.3	1724.6	-	41740
Pen. Gilt Edg. Cap	321.1	338.0	-	41741
Pen. Gilt Edg. Acc	499.1	525.4	-	41742
Pen. Eq. Cap	1425.5	1500.6	-	41743
Pen. Eq. Acc	2053.2	2161.3	-	41744
Pen. Am. Eq Cap	157.8	166.2	-	41745
Pen. Am. Eq Acc	191.5	201.6	-	41746
Pen. Far East Cap	252.2	265.5	-	41747
Pen. Far East Acc	306.1	322.3	-	41748
Pen. Euro Cap	28.4	29.9	-	41749

[illegible]

Continued on next page

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Pioneer Mutual Insurance Co Ltd
16 Crosby Rd N Waterloo, Liverpool 051-928 6655

	Bid Price	Offer Price	Yield Gross	City-line
Managed Fund	317 9	334 7	–	43272
Man Pens Inc & Cap Fds.	426.8	449.3	–	43273
Money Fund	121 0	127 4	–	43274
Pens Mngd Fd (Init)	110 2	124.5	–	43275
Pens Mngd Fd (Acc)	144.4	152.0	–	43276
Pens FT30 Fd (Init)	156 5	164 6	–	43277
Pens FT30 Fd (Acc)	191.0	201 1	–	43278
Pens O'seas MgFd(Init)	76 0	80 9	–	43279
Pens O'seas MgFd(Acc)	93.9	98.9	–	43280
Pens Fxd Int Fd (Init)	106 6	112.3	–	43281
Pens Fxd Int Fd (Acc)	130.5	137 2	–	43282
Pens Deposit Fd (Init)	105 9	111.5	–	43283
Pens Deposit Fd (Acc)	129.4	136.3	–	43284

Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	Yield Gross	City-line
American	129 0	136.0	–	43285
Building Soc. Fd.	172 0	182.0	–	43286
Balanced	292.0	308.0	–	43287
European	185 0	195 0	–	43289
GT Managed	183.0	193 0	–	43290
Gartmore Mngd.	122 0	129 0	–	43291
German	132.0	139 0	–	43292
Gilt	188 0	198 0	–	43293
Global	49 0	52 0	–	–
High Inc.	127.0	134.0	–	43294
International Equity	202 0	213.0	–	43295
Japan	251 0	265 0	–	43296
Managed	64 0	68.0	–	43297
Property	286 0	302 0	–	43298
G W Imperial Gold	149.0	157 0	–	43299
UK Equity	371.0	391 0	–	43300
Pension Funds				
American	153.0	162.0	–	43301
Building Soc. Fd.	173 0	183 0	–	43302
Balanced	225 0	237 0	–	43303
European	185 0	195 0	–	43305
German	115.0	122.0	–	43308
Gilt	160.0	169 0	–	43309
International Equity	147 0	155.0	–	43310
Japan	141.0	151 0	–	43311
Managed	67 0	71 0	–	43312
Property	220.0	232.0	–	43313
UK Equity	338 0	356 0	–	43314

Professional Life Assurance Co Ltd

Prudential Holborn Life Ltd—Contd.
Holborn Series II Life Funds

	Bid Price	Offer Price
Managed	541 6	570.2
Equity	1106 0	1164 3
International	383.0	403 2
Fixed Int	378.0	398.0
Property	385.4	405 7
Cash	256 0	270 4
Pacific Basin	213.4	224 7
North American	162 4	171.5
European	167 2	176 1
Holborn Balanced Gwth.	110.9	125.2
Holborn Strategic Gwth.	110.3	129 6

Prudential Holborn Pensions Ltd
30 Old Burlington St, London W1X 1LB

	Bid Price	Offer Price
Managed	584 0	614 0
Equity	848 0	893 5
Global Equity	250 5	263 7
Fixed Interest	414 3	436.2
Property	399 9	421 0
Cash	159.5	167.7
Index Linked Gilt	202.9	213 6
Guaranteed	12.68	
International Money	205.7	216 6
North American	80.3	84.6
Japanese	147.2	155 0
European	101.6	107.0
Special Situations	125.4	132.1
Communications	109.5	115.3
Smaller Companies	114.6	120.7
International Small Cos.	137.6	144.9

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH

	Bid Price	Offer Price
Discretionary Aug 2	£162.37	168.07
Equity Aug 2	£179.11	185.99
International Aug 2	£27.21	28.09
Intl Bond Aug 2	£12.56	12.73
Fixed Int Aug 2	£74.05	75.04
Index Linked Aug 2	£63.04	63 04
Property Aug 2	£112.79	119.50
Cash Aug 2	£21.2476	21.2476
Pru-Linked Retirement Plan		
Managed Aug 1	398 2	414.8
Cash Aug 1	199.6	208.0
Prudential Pensions Investment Account		
Pens Mngd Aug 4	160.5	172.7

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

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ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
2,000	Exch 11pc 1989	99	13.24	20.2	29 Mar 29 Sep	1256
601	Treas 5pc 1986-89	98	11.04	9.3	15 Apr 15 Oct	1329
174	Exch 10¼pc Cv '89	99	13.10	10.4	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	100⅛	12.48	8.6	15 Jul 15 Jan	1300
500	Treas 2pc IL '90(84.6)	131½	9.98	19.6	25 Jul 25 Jan	1311
1,400	Exch 11pc 1990‡‡	99	12.60	12.7	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	99¼	12.81	13.2	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	95⅛	9.79	3.4	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	97⅛	11.69	9.5	15 Dec 15 Jun	1340
955	Treas. 8pc Cv 1990 ‡‡	97	10.86	9.6	16 Jul 16 Jan	4680
1,887	Treas. 10pc Cv 1990	97	11.97	20.3	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	93	8.42	17.4	22 May 22 Nov	1270
2,300	Treas. 11¾pc 1991	99	11.80	27.6	10 Jul 10 Jan	1292
[illegible]	Funding 5¾pc '87-91‡‡	93	10.40	1.3	5 Oct 5 Apr	1275
[illegible]	Treas. 3pc 1991	90⅛	9.14	6.4	13 Nov 13 May	1326
[illegible]	Treas 10pc Cv '91 ‡‡	97	11.47	27.6	12 Jan 12 Jul	1286
[illegible]	Exch. 11pc 1991	99	11.33	20.3	25 Apr 25 Oct	1258
[illegible]	Treas. 8pc 1991	93	11.26	4.5	10 Jun 10 Dec	1335
[illegible]	Treas 12¾pc 1992‡‡	103⅝	10.93	15.6	22 Jul 22 Jan	1297
[illegible]	Treas 10pc 1992	97	10.98	17.7	21 Aug 21 Feb	1283
[illegible]	Treas. 8pc 1992 ‡‡	93	11.02	7.3	13 Oct 13 Apr	1337
[illegible]	Treas 10½pc Cv 1992‡‡	99	10.96	31.3	7 Nov 7 May	1289
[illegible]	Treas. 3pc 1992	85	9.09	5.5	11 Dec 11 Jun	1328
[illegible]	Exch. 12¼pc '92	103	10.92	19.7	25 Feb 25 Aug	1265
[illegible]	Exch 13½pc 1992	106	10.83	13.2	22 Mar 22 Sep	1266
[illegible]	Treas 8¼pc 1993	93	10.66	12.7	18 Aug 18 Feb	–
[illegible]	Treas 10pc 1993‡‡	98	10.54	9.3	15 Oct 15 Apr	1279
[illegible]	Treas 12½pc 1993‡‡	105	10.62	27.6	14 Jan 14 Jul	1296
[illegible]	Funding 6pc 1993‡‡	86	9.91	6.2	15 Mar 15 Sep	1276

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,362	Conversion 9½pc 2004	99	9.55	20.3	25 Apr 25 Oct	1246
1,881	Conversion 9½pc 2005	99	9.53	13.3	18 Oct 18 Apr	1247
1,050	Exch. 10½pc 2005	107	9.51	13.2	20 Mar 20 Sep	1251
2,200	Treas. 12½pc 2003-05	121	9.71	14.4	21 May 21 Nov	1295
1,800	Treas. 8pc 2002-06‡‡	87	9.44	1.3	5 Apr 5 Oct	1334
702	Conversion 9¾pc 2006	102	9.44	10.4	15 May 15 Nov	1249
3,150	Treas. 11¾pc 2003-07	115	9.71	15.6	22 Jul 22 Jan	1293
1,446	Treas 8½pc 2007 ‡‡	93	9.27	9.6	16 Jan 16 Jul	1339
1,250	Treas. 13½pc '04-08	129	9.64	17.2	26 Sep 26 Mar	1301
1,800	Treas. 9pc 2008 ‡‡	97	9.23	7.3	13 Apr 13 Oct	1343
1,000	Treas 8pc 2009	89	9.18	16.2	25 Mar 25 Sep	1336
369	Conv 9pc Ln 2011 ‡‡	98	9.14	29.6	12 Jan 12 Jul	1245
1,000	Treas. 5½pc 2008-12‡‡	66½xd	8.99	4.8	10 Mar 10 Sep	1330
700	Treas. 7¾pc 2012-15‡‡	86	9.11	19.6	26 Jul 26 Jan	1332
1,000	Exch. 12pc '13-'17	127	9.17	8.5	12 Jun 12 Dec	1260

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	43⅛	–	26.6	1 Feb 1 Aug	1239
1,909	War Loan 3½pc‡‡	38½	–	25.4	1 Jun 1 Dec	1352
140	Conv. 3½pc '61 Aft.	65	–	23.2	1 Apr 1 Oct	1243
56	Treas. 3pc '66 Aft.	34	–	1.3	5 Apr 5 Oct	1324
276	Consols 2½pc	27	–	1.6	5 Ja Ap Jul O	1238
475	Treas. 2½pc	27⅛	–	23.2	1 Apr 1 Oct	1315

Index-Linked

Amount £m	Stock (b)	Price £	**	Last xd	Interest Due	City-line
650	Tr. 2pc '92‡‡(97.8)	112	2.98	14.2	23 Mar 23 Sep	1312
400	Do. 2 '94 (102.9)	104⅝	3.02	10.4	16 Nov 16 May	–
1,000	Do. 2pc '96(67.9)	152¼	3.22	7.2	16 Mar 16 Sep	1313
900	Do 2½pc '01(78.3)	128	3.54	15.2	24 Mar 24 Sep	1316
800	Do. 2½pc '03(78.8)	125	3.59	13.4	20 Nov 20 May	1317
1,200	Do. 2pc '06(69.5)	128	3.60	12.6	19 Jan 19 Jul	1314
950	Do. 2½pc '09(78.8)	120	3.60	13.4	30 Nov 20 May	1318
1,350	Do. 2½pc '11(74.6)	125xd	3.60	17.7	23 Feb 23 Aug	1319
1,100	Do. 2½pc '13(89.2)	104xd	3.56	10.7	16 Feb 16 Aug	1320
1,700	Do. 2½pc '16(81.6)	113	3.53	19.6	26 Jan 26 Jul	1321
1,400	Do. 2½pc '20(83.0)	110⅝	3.48	10.3	16 Oct 16 Apr	1322
900	Do. 2½pc '24‡‡(97.7)	93⅛	3.43	12.6	17 Jan 17 Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for November 1988:110.0 and for June 1989:115.4

INT. BANK AND O'SEAS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼ Ln 2010	105	10.47	1.12	4 Jan 4 Jun	–
100	Asian Dev Bk 10¼pcLn2009	101⅛	10.06	28.3	24 Mar 24 Sep	–
100	Australia 13½pc 2010	125⅝xd	10.48	23.12	28 Jan 28 Jul	–
100	Do. 11¾pcLn2015	100	10.41	22.3	26 Apr 26 Oct	–
75	Euro Inv Bk 13pc Ln 2002	105	10.25	23.2	23 Mar 23 Sep	–
100	Do. 10⅜pc2004	101	10.21	24.10	Apr Nov	–
75	Int-Am Dev Bk 12½pc 2003	114	10.44	7.12	8 Jan 8 Jul	–
175	Do. 9¾pcLn 2015	96	10.14	13.10	15 May 15 Nov	–
75	Mlysia 10¼pcLn 2009	94½xd	11.45	23.12	31 Jan 31 Jul	–
50	Utd. Mexican States 16½pc 2008	117	13.80	24.1	1 Mar 1 Sep	–

CORPORATION LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
32	Birmingham 13½pc 1989	99½	11.30	20.4	20 May 20 Nov	1838
45	Do. 11½pc 2012	107	10.60	14.4	15 May 15 Nov	1837
40	GLC 6¾pc 1990-92	88½xd	11.40	17.7	15 Feb 15 Aug	2647
40	Leeds 13½pc 2006	121½	10.73	10.3	1 Apr 1 Oct	3146
5	Liverpool 3½pc Irred	30	–	14.7	1 Ja Apr Jul Oc	3169

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
20	N'wide Anglia 11⅞pc 7.8.89	99xd	13.37	12.7	1 Feb 7 Aug	–
20	Do. 11⅞pc 29.8.89	99	13.81	–	2 Feb 29 Aug	–
20	Do. 12⅝pc 18.9.89	99	14.75	10.2	12 Mar 18 Sep	–
20	Do. 12pc 2.10.89	99	13.86	27.2	26 Mar 2 Oct	–
20	Do. 11pc 6.11.89	99	13.89	31.3	30 Apr 6 Nov	–
20	Do. 12pc 4.12.89	99	13.87	28.4	28 May 4 Dec	–
20	Do. 12pc 2.1.90	99½	13.86	30.5	2 Jan 28 Jun	–
20	Do. 12pc 29.1.90	99⅝	13.76	23.6	29 Jan 23 Jly	–
–	Do. 12pc 26.2.90	99	13.75	21.7	26 Feb 20 Aug	–
–	Do. 12⅝pc 19.3.90	99	13.75	–	19 Mar 13 Sep	–
20	Do. 13⅜pc 23.4.90	99	13.72	–	23 Apr 17 Oct	–
20	Do. 13pc 14.5.90	99⅝	13.71	–	14 May 8 Nov	–
–	Do. 13pc 4/6/90	99	13.67	–	4 Jun 30 Nov	–
–	Do. 14pc 2.7.90	100	13.59	–	2 Jly 20 Dec	–
60	Do. 3⅞pc IL Ln 2021	103¼xd	4.40	22.6	30 Jan 31 Jul	3465

Public Board and Ind.

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
25	Met. Wtr. 3pc 'B'	46xd	10.63	1.8	1 Mar 1 Sep	3361

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	40	3.50	8.75	1.11	1 May 1 Nov	2763
4	Do. 6pc 28 Stb. Ass.	40xd	3	7.50	1.2	1 Feb 1 Aug	2762
–	Do 4pc Mixed Ass.	40xd	3	5.00	3.4	1 Apr 1 Oct	2761
1	Hung '24 Ass.	80	2.75	3.57	3.5	1 May	2935
40	Hydro Quebec 15pc 2011	134	15.00	10.94	7.10	31 Mar 30 Sep	–
30	Iceland 14½pc Ln 2016	125¼	14.50	11.45	29.12	21 Jan 31 Jul	–
30	Ireland 9¾pc '91-96	92	9.75	11.28	15.2	1 Mar 1 Sep	3002

AMERICANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
8,888.8	Abbott Laboratories$	39xd	$1.40	2.3	11.7	Fe My Ag Nv	1503
247.9	♦Allegheny & W 1c	477p	30c	4.0	–	–	–
1,664.7	Amax $1	15⅛	80c	3.3	5.5	Mr Jn Se De	1581
379.1	Ambase Corp $1	9⅛xd	20c	1.4	24.2	Ja Mr Jn Dc	2915
962.8	Amdahl 5c	917pxd	h10c	0.7	31.1	Ms Mr Jn Ag	–
3,799.7	Amer. Cyanamid $5	35	$1.35	2.4	27.2	Mr Je Se De	–
11,628.6	Amer Express 60c	23xd	84c	2.3	3.7	Fb Mr Ag Nv	1594
1,260.0	Amer Medical Int $1	15	72c	2.9	9.1	Fb My Au Nv	–
26,462.3	American T & T $1	24	$1.20	3.1	27.5	Fb My Ag Nv	1597
16,004.4	Ameritech $1	37	$2.92	4.9	28.3	Fb Mr Ag Nv	–
3,466.3	BankAmerica $1.2	19¼xd	60c	2.0	17.5	Fe Mr Au No	1744
2,679.8	Bankers N Y $1	33xd	$2.08	3.9	31.3	Ap Jl Oc Jan	1745
11,662.7	Bell Atlantic $1	58	$4.08	4.4	27.6	Fb My Au Nv	–
15,641.2	BellSouth Corp	32	$2.52	4.9	6.7	Fb My Au Nv	–
1,031.5	♦Bethlehem Steel $8	13xd	–	–	6.2	Mar Jun S D	1821
–	♦Bio-Rad Labs. A	946p	–	–	–	–	–
647.2	Bowater Inc	17	$1.12	4.0	6.6	Oc Ja Ap Jl	1884
903.0	Brunswick 75c	10xd	44c	2.9	30.7	F My Au N	1889
3,343.3	CPC Intnl. 25c	40	$1.60	2.5	25.9	Jan Ap Jly O	2263
108.3	California Engy.	595p	–	–	–	–	–
4,371.3	Campbell Soup 15c	33xd	92c	1.7	3.7	Oc Ja Ap Jy	–
1,929.5	Chase Manhattan $12½	23xd	$2.36	6.3	27.7	Fb Mr Ag Nv	2109
2,021.7	Chem. Banking Corpn	23	$2.72	7.3	12.6	Ap Jy Oc Ja	–
3,327.9	Chrysler $6¼	15xd	$1.20	5.0	15.6	Mar Jun S D	2135
6,410.5	Citicorp $1	20xd	$1.62	5.1	25.4	My Au N F	2141
2.37	CityFed Fin. Corp.	115p	4c	2.2	29.10	Fb My Ag Nv	–

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

UNIT TRUST NOTES

LONDON SHARE SERVICE

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AMERICANS – Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
31,988.0	Gen. Elect. 63c	34½	$1.64	3.0	7.6	Ja Ap Jn Oc	2675
–	♥General Host Corp $1	477p	30c	4.0	13.12	–	–
3,253.4	Gillette $1	28¼	96c	2.3	27.1	Mar Jun S D	2695
209.2	Gt Atl First Svgs Bk $1	638p	60c	6.0	28.10	Fb My Ag Nv	–
837.9	Greyhound $1½	21¾	$1.32	3.9	30.5	Ja Ap Jy Oc	2778
680.0	Hasbro Inv 50c	12¾	16c	0.8	1.8	Ja No Au My	–
2,394.1	Honeywell $1½	34⅝	$2.10	2.4	23.5	Mar Jun S D	2919
2,586.2	Houston Inds. ‖	23	$2.96	8.9	18.11	Mr Jn Se De	–
41,532.4	IBM Corpn $1¼	69¾	$4.84	4.4	5.5	Mar Jun S D	2986
1.17	Hoopy Storage/II.Svs Ic	55p	–	–	–	–	2961
1,530.2	Ingersoll-Rand $2	29	$1.20	2.6	16.5	Mar Jun S D	2979
1,927.1	Lockheed Crpn. $1	29½	$1.80	3.9	15.2	Mar Jun S D	–
373.3	Lone Star Inds $1	22¾	$1.90	5.3	12.6	May Se N Mar	3216
748.4	Louisiana Land 15c	24½	$1.00	2.6	26.5	Mar Jun S D	3222
658.8	Lowe's 50c	16⅝	48c	1.8	11.7	Jan Ap Jly Oc	–
1,212.4	Manuf. Hanover $1	25¼	$3.28	8.2	26.6	Jan Ap Jly Oc	3279
2,297.6	Merrill Lynch $1	21¼	$1.00	2.9	31.10	Feb My Ag N	3351
539.4	Molex Inc	2126p	3.2c	–	–	–	3397
4,581.6	Morgan (JP) $2½	25½	$1.66	4.1	21.12	Jan Ap Jly O	3418
10,473.4	NYNEX $1	48⅞	$4.36	5.6	27.6	F May Ag N	–
389.6	PHH Corp. ‖	23¼	$1.12	3.0	4.4	Ja Ap Jy Oct	–
–	♥Pacific Agr. ‖	180p	–	–	–	–	–
1,713.3	Pacificorp $3¼	24½	$2.76	6.8	18.7	Feb My Ag Nv	–
11,571.0	Pacific Telesis 10c	26⅞	$1.88	4.4	12.85	Fe My Au No	–
749.3	Pall Corp. 25c	21¼	48c	1.5	24.1	Fe My Au No	–
1,985.5	Pennzoil 83 1/3c	48½	$3.00	3.9	25.5	Mar Jun S D	3630
3,215.7	Quaker Oats $5	40¼	$1.20	1.9	20.6	Jly Oc Jan Apr	3738
782.8	Pep HV Corpn $5	31½	$1.28	2.6	12.6	Jan Apr Jly O	3814
4,837.6	Rockwell Intl. $1	13⅞	78c	3.6	10.5	Mr Jn Se De	3847
10,469.9	Southwestern Bell $1	34¼	$2.60	4.7	5.7	Fb My Ag No	–
2,455.1	Sun Co. Inc. $1	23¼	$1.80	4.9	5.5	Mr Jn Se De	4135
1,758.8	TRW Inc. 62½c	29⅜	$1.72	3.7	9.5	Ma Jn Se De	4318
1,061.6	TW Services $5	20¾	10c	0.3	11.11	Fe My Ag No	–
5,496.7	Tenneco $5	37½	$3.04	5.2	23.5	Mr Jn Sp Oc	4194
7,847.2	Texaco $6.25	32⅜	♦$3.00	5.9	3.8	Mr Je Se De	4200
2,393.3	Texas Instr. $1	23¾	72c	1.9	27.6	JAJO	5033
8,325.0	Time Inc. $1	87⅞	$1.00	0.7	22.2	Mr Jn Se De	4234
583.1	TRINOVA Corp	17⅛	64c	2.4	10.5	Mr Je Se De	4309
6,557.7	USX $1	21½	$1.40	4.1	2.5	Mr Je Se De	4380
185.8	♥Unilab	200p	–	–	–	–	–
4,361.2	Utd Technologies	33¼	$1.60	5.0	23.5	Mr Jn Sp Dc	4381
–	♥Utilitech Inc	143p	–	–	–	–	–
8,891.5	US West‖	44¼	$3.76	5.4	14.4	Fb My Ag No	–
7,908.2	Waste Management $1	35⅛	48c	0.9	16.6	Ap Jly Oc Jan	4439
1,345.2	Whirlpool $1	19¾	$1.10	3.6	28.2	Mr Jn Se De	–
2,491.3	Whitman Corp	21⅜	$1.02	3.0	6.6	Ap Jy Oc Ja	2951
2,368.5	♥Woolworth $3½	36⅞	$1.88	3.3	26.1	Mr Je Se De	4540

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

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OIL AND GAS—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	♦Intl Pet Crpn.	139		–	–	–	–
17.2	KCA Drilling 1p	21½	–	–	9'85	–	3073
167.1	Kelt Energy 10p	57	–	–	4'86	–	2211
26.4	Do. 6pc Cv. Prf	88	6%	9.1	27 2	–	5069
8.83	Kingston Oil & Gas 50c	100	†01.75c	1.1	17 4	May Dec.	3091
–	♦Lennard Oil 50c	2	–	–	–	–	3155
1,220.6	LASMO	510	8.5	2.2	8.5	June Nov.	3189
10.3	Do. "Ops" 10p	145	21.61	19.9	3 4	May Oct	3190

MINES—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
3.66	♦Ayer Hitam SM1	40	‡Q53.3c	‡	9 3	Apr. Nov.	1714
12.0	Gopeng Berhad M$0.50	75xd	†Q10c	3.0	31.7	Sep	2726
284.3	Malaysia Mng. 10c	68	Q5c	1.7	17.4	Dec Aug	3272
16.1	Petaling SM1	160	Q97c	12.4	5 6	Dec July	3644
4.27	Sungei Besi SM1	125	Q70c	12.7	17 7	August	4140
1.34	Tanjong 15p	90xd	–	–	6'81	–	–

THIRD MARKET

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
11.6	Royal Sovereign 10p	210	5.5	3.5	3.4	May Nov	1505
1.05	Scott Pickford 10p	15	d0.38	3.3	17.7	August	5062
10.3	Seacon Hldgs	149	2.5	2.2	3.4	Oct May	3968
2.99	Stairs Hldgs. 5p	6½	–	–	–	–	4625
3.21	Swanyard Studios 1p	2¼	–	–	–	–	4666
1.00	Systems Connections 2½p	8	–	–	–	–	5152
9.98	Tavern Leis. 20p	39	–	–	–	–	–
12.1	Tomorrows Leisure 20p	108	–	–	–	–	4248
14.5	Tullow Oil 10p	14½	–	–	24.2	–	4886
3.43	UPL Group 10p	85	2.75	4.3	22.5	Dec. July	4362
7.59	Unit Group	147	5.0	4.5	3.7	Jan Aug	4357
4.77	Vista Ents 5p	9	–	–	–	–	3994
18.7	Vizcaya Hldgs 5p	35	–	–	–	–	4193
55.9	Whitegate Leisure 20p	38½	–	–	–	–	1105
1.81	Do. Wrrnts	27	–	–	–	–	1116
27.2	Wilton Group 1p	7¼	–	–	13.7	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate c Cents d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources k Kenya m Interim higher than previous total. o Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend u Forecast, or estimated annualised dividend rate v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue, xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p ....γ	96	......	Arnotts ....γ	415	......
Craig & Rose £1...γ	830	......	Carrol (P.J.)....γ	160	......
Finlay Pkg. 5p....γ	86	......	Hall (R. & H.)....γ	168	......
Holt (Jos) 25p ....γ	1343	......	Heiton Hldgs....γ	85	+2
			Irish Ropes....γ	215	−10
			United Drug....γ	147	......

IRISH

Cap. 8½% Ln. 1991 γ	£98½	......
9pc Cap Ln. 1996.γ	£101⅞	−⅛
Fin. 13% 97/02..γ	£122¼	−¼

TRADITIONAL OPTIONS
3-month call rates

Industrials

	p
Allied-Lyons....γ	38
Amstrad....γ	11
BAT....γ	80
BOC Grp....γ	42
BSR....γ	6½
BTR....γ	32
Barclays....γ	42
Blue Circle....γ	24
Boots....γ	25
Bowaters....γ	44
Brit Aerospace....γ	52
British Steel....γ	7½
Brit. Telecom....γ	21
Burton Ord....γ	18
Cadburys....γ	46
Charter Cons....γ	48
Comm Union....γ	32
Courtaulds....γ	30
FKI Babcock....γ	14
FNFC....γ	22
Gen Accident....γ	85
GEC....γ	20
Glaxo....γ	110
Grand Met....γ	48
GUS 'A'....γ	90
Guardian....γ	10
GKN....γ	34
Hanson....γ	16
Hawker Sidd....γ	60
ICI....γ	100
Jaguar....γ	28
Ladbroke....γ	28
Legal & Gen....γ	26
Lex Service....γ	33
Lloyds Bank....γ	29
Lucas Inds....γ	58
Marks & Spencer....γ	15
Midland Bk....γ	30
Morgan Grenfell....γ	24
Nat West Bk....γ	25
P & O Dfd....γ	55
Plessey....γ	22
Polly Peck....γ	26
Racal Elect....γ	40
RHM....γ	42
Rank Org Ord....γ	00
Reed Intnl....γ	34
STC....γ	32
Sears....γ	10
Smithkline Bchm. A....γ	50
TI....γ	38
TSB....γ	10
Tesco....γ	14
Thorn EMI....γ	58
Trust Houses....γ	24
T&N....γ	18
Unilever....γ	46
Vickers....γ	18
Wellcome....γ	42

Property

Brit Land....γ	32
Land Securities....γ	52
MEPC....γ	50
Randsworth....γ	20

Oils

Brit Petroleum....γ	21
Burmah Oil....γ	50
Calor....γ	35
Charterhall....γ	2½
Premier....γ	9
Shell....γ	32
Ultramar....γ	26

Mines

Cons Gold....γ	150
Lonrho....γ	30
RTZ....γ	40

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CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Clearing out the bad debt exposure

INSIDER TRADING is not something usually associated with the foreign exchange market, but it is obviously a subject that has worried UK clearing banks, and it is a charge which they have no intention of adding to their present problems.

The "big four" UK clearers, Barclays, Lloyds, Midland and National Westminster, have all just announced sharp falls in first half profits - in Midland's case a first-half loss - as a result of provisions for bad debts on third world loans.

The total of debt write-offs is an estimated £2bn. This money was lent in dollars, and to cover their exchange exposure the banks have sold sterling and bought US currency. Most of this operation took place last week and the amount involved was enough to hit an already fragile sterling.

Sterling was already looking certain on rumours that the UK authorities wished to cap it below DM3.12 and that the Bank of England was selling the pound to this purpose. It was an erroneous suggestion and rather a foolish one, since keeping sterling down would simply import inflation and do nothing to encourage a reduction in the retail price index.

The Bank of England quashed these rumours with some very obvious intervention on Thursday to buy the pound. It was a well publicised move in the market and was meant to show that that the central bank had not been a seller of the currency. This put a floor under sterling and held it above a support point of DM3.06.

There is now reasonable confidence in the City that the worst is over and every prospect that the pound will rally towards DM3.10. Confidence has been boosted by the fact that most of the covering of the UK clearers'debt write-offs should now be complete. The pound was on the sidelines on Friday, moving in a narrow range and showing no sign of suffering from any large selling orders.

Where does insider trading fit into this scenario ? Firstly, it may be worth looking into the reason why these debts need physical covering and cannot simply be written off as a book transaction. The banks involved in lending to third world borrowers went into the wholesale market and borrowed dollars. Many loans have not yet reached maturity and may not do so for several years.

For the remaining period of the loan the UK banks are sitting on a potentially open-ended exchange loss. Prudence suggests that it would be wise to buy dollars now and end this exposure at a loss which can be calculated and written off to reserves.

Of course the banks knew of their exposure and the need to *make the write-offs* a long time before the half-year figures were published. In that case, one could reasonably ask, why did they not sell sterling over a longer period rather than all pile into the market together and see sterling react like a punctured tire?

Selling slowly over a long period would have put less downward pressure on the pound and would also have enabled the banks to obtain a higher rate for the currency and cut back on some of their losses.

The answer must surely be a fear of being accused of using information known only to themselves, in other words, insider trading. Such an charge is a nightmare that the clearers could not countenance, particularly at a time when the City remains sensitive on the subject and NatWest in particular is still smarting from the impact of the Blue Arrow affair and the resignation of several of its directors.

Colin Millham

£ IN NEW YORK

Aug 4	Close	Previous Close
£ Spot	1.6055-1.6065	1.6364-1.6374
1 month	0.69-0.66pm	0.72-0.70pm
3 months	2.00-1.95pm	2.12-2.10pm
12 months	7.00-6.90pm	7.40-7.30pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Aug 4	Previous
8.30 am	92.1	92.3
9.00 am	92.1	92.4
10.00 am	92.1	92.4
11.00 am	92.1	92.2
Noon	92.1	91.9
1.00 pm	92.1	91.9
2.00 pm	92.1	92.0
3.00 pm	91.9	92.1
4.00 pm	91.9	92.0

CURRENCY RATES

Aug 4	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling	-	1.27935	1.47969
U.S Dollar	7	1.29042	1.10645
Canadian $	12.36	1.51186	1.29698
Austrian Sch	5	16.8426	14.5985
Belgian Franc	7.75	50.1522	43.4198
Danish Krone	9½	9.29619	8.05771
Deutsche Mark	5.00	2.39334	2.07348

§ Sterling quoted in terms of SDR and ECU per £. † European Commission Calculations. * All SDR rates are for Aug.3

CURRENCY MOVEMENTS

Aug.4	Bank of England Index	Morgan** Guaranty Changes %
Sterling	91.9	-19.2
U.S Dollar	69.8	-9.4
Canadian Dollar	104.6	+1.4
Austrian Schilling	106.6	-9.8
Belgian Franc	106.1	-5.8
Danish Krone	103.6	-1.1
Deutsche Mark	113.0	+20.9

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) *Rates are for Aug.3

OTHER CURRENCIES

Aug 4	£	$
Argentina	1049.10-1057.85	650.00-655.00
Australia	2.1265-2.1290	1.3210-1.3220
Brazil	3.6285-3.6485	2.2480-2.2590
Finland	6.8895-6.9125	4.2710-4.2720
Greece	262.95-267.45	161.00-163.60
Hong Kong	12.5910-12.6075	7.8050-7.8070
Iran	119.40*	71.50*
Korea(Sth)	1090.30-1099.10	664.80-670.20
Kuwait	0.47950-0.48250	0.29300-0.29400
Luxembourg	64.15-64.25	39.70-39.80

*Selling rate

EURO-CURRENCY INTEREST RATES

Aug.4	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
D. Guilder	7⅛-7	7⅛-7	7⅛-6⅞	7⅛-6⅞	7⅛-7	7⅛-7
Sw Franc	7⅛-7⅜	7⅝-7⅜	7⅝-7⅜	7⅛-7	6⅞-6⅞	6⅞-6⅞
Deutschmark	7-6⅞	7-6⅞	7-6⅞	7-6⅞	6⅞-6⅞	6⅞-6⅞
Fr. Franc	9⅛-9⅛	9⅛-8⅞	9⅛-8⅞	9⅛-8⅞	8⅞-8⅞	8⅞-8⅞
Italian Lire	11-9	12½-11½	12⅛-11⅛	12½-12	12⅛-12	12⅝-12⅛
B. Fr. (Fin)	8⅜-8½	8½-8⅜	8⅞-8⅞	8⅞-8⅞	8⅞-8⅞	8⅜-8¼
B. Fr. (Con.)	8⅜-8⅜	8⅝-8⅜	8⅝-8⅜	8⅝-8⅜	8⅞-8⅞	8½-8⅛
Yen	5⅛-5⅜	5⅞-5⅞	5⅞-5⅞	5⅞-5⅞	5⅛-5⅞	5⅜-5⅛
D Krone	9⅛-9	9⅞-9⅞	9⅛-9⅞	9⅛-9⅞	9⅛-9⅛	9⅞-9⅞
Asian $Sing	8⅞-8⅛	8⅞-8⅛	8⅛-8⅝	8½-8⅝	8⅛-8⅛	8⅛-8⅞

Long term Eurodollars; two years 8½-8⅜ per cent; three years 8⅝-8⅞ per cent; four years 8⅝-8½ per cent; five years 8⅞-8⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Aug 4	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.615	3.065	225.3	10.38	2.643	3.458	2206	1.901	64.20
$	0.619	1	1.898	139.5	6.427	1.637	2.141	1366	1.177	39.75
DM	0.326	0.527	1	73.51	3.387	0.862	1.128	719.7	0.620	20.95
YEN	4.439	7.168	13.60	1000.	46.07	11.73	15.35	9791	8.438	285.0
F Fr.	0.963	1.556	2.953	217.1	10.	2.546	3.331	2125	1.831	61.85
S Fr.	0.378	0.611	1.160	85.24	3.927	1	1.308	834.7	0.719	24.29
H Fl.	0.289	0.467	0.886	65.15	3.002	0.764	1	637.9	0.550	18.57
Lira	0.453	0.732	1.389	102.1	4.705	1.198	1.568	1000.	0.862	29.10
C $	0.526	0.850	1.612	118.5	5.460	1.390	1.819	1160	1	33.77
B Fr.	1.558	2.516	4.774	350.9	16.17	4.117	5.386	3436	2.961	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT- FORWARD AGAINST THE POUND

Aug 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6015-1.6375	1.6145-1.6155	0.70-0.67cpm	5.09	2.10-2.05pm	5.14

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 64.25-64.35. Six-month forward dollar 4.04-3.99cpm. 12 months 7.20-7.10cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Aug 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6015-1.6375	1.6145-1.6155	0.70-0.67cpm	5.09	2.10-2.05pm	5.14

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 39.75-39.85.

MONEY MARKETS

Reversed curve flattens as rates look set to hold

A FLATTER yield curve developed on the London money market last week. A weaker pound did not put upward pressure on the shorter end of the market. Three-month interbank - an important guide on UK bank base rates - eased to 13⅜ per cent from 13¾ per cent, suggesting dealers believe there is reluctance in official circles to raise base rates.

UK clearing bank base lending rate 14 per cent from May 24

The building societies will come under pressure to raise mortgage rates if base rates are not cut later this year; a rise in base rates will almost certainly increase the cost of mortgages. This in itself is not necessarily inflationary, but it would push up the retail price index, encouraging demands for higher wages at a time when the Government and the City are concerned about the level of wage inflation.

The underlying rate of average earnings in May rose at an annual 9.25 per cent, unchanged for the third consecutive month, but the actual rate was 9.5 per cent, against 9.1 per cent previously. There is concern that the underlying rate is lagging behind and that the true rate is already near 10 per cent.

Longer term money rates have now moved higher, with 12-month interbank firming to 13½ per cent from 13¼ per cent. The gap between three-month and 12-month money narrowed to ⅛ per cent, from ⅝ per cent, flattening the reversed yield curve.

This indicates that the authorities are reluctant to raise rates, but will be slow to allow a cut with inflation a problem and sterling vulnerable to any reduction in its interest rate advantage.

FT LONDON INTERBANK FIXING

(11.00 a.m. Aug.4) 3 months US dollars		6 months US Dollars	
bid 8⅞	offer 8⅞	bid 8⅛	offer 8⅛

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Treasury Bills and Bonds

4pm					
Prime rate	10½	One month	7.50	Three year	7.98
Broker loan rate	10	Two month	0.25	Four year	7.92
Fed funds	8⅞	Three month	8.11	Five year	7.94
Fed.funds at intervention	8⅞	Six month	8.12	Seven year	7.94
		One year	8.07	10-year	8.00
		Two year	7.94	30-year	8.08

Aug.4	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	6.85-6.95	6.80-6.95	6.75-6.95	6.75-6.95	6.75-6.95	7.00
Paris	9⅛-9⅜	8⅞-9⅛	8⅞-9⅛	8⅞-9⅛	8⅞-8⅞	8.75
Zurich	6⅞-6⅞	7-7⅛	-	6⅞-7⅛	-	-
Amsterdam	7.18-7.31	7.12-7.22	-	7.07-7.17	-	-
Tokyo	5⅛-5⅜	5⅛-5⅜	-	5⅛-5⅜	-	-
Milan	12⅛-12⅞	12½-13	-	12½-13	-	-
Brussels	7.30	8⅞-8⅞	-	8⅞-8½	-	-
Dublin	9⅛-9⅝	9⅝-9⅞	9⅛-9⅞	9⅞-10⅛	01-10⅛	-

LONDON MONEY RATES

Aug.4	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15	14	13⅞	13⅞	13⅞	13½
Interbank Bid	13½	13⅞	13⅞	13⅞	13⅝	13⅞
Sterling CDs	-	-	13⅞	13⅞	13⅝	13⅞
Local Authority Deps.	14⅛	13⅞	13⅞	13⅞	13⅝	13⅞
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	14⅛	13⅞	13⅝	13½	-	-
Company Deposits	-	-	13⅞	13⅞	13⅞	13⅞
Finance House Deposits	-	-	13⅞	13⅞	13⅞	13⅞

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY AUGUST 4 1989 US Dollar Index	% change since Dec.30 '88	Pound Sterling Index	Local Currency Index	% change local currency since Dec.30 '88	Gross Div. Yield	THURSDAY AUGUST 3 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1989 High	1989 Low	Year ago (approx)
Australia (85)	146.50	+1.4	134.49	127.79	+13.5	4.66	147.10	132.74	127.34	157.12	128.28	149.87
Austria (19)	135.49	+41.2	124.38	133.59	+50.7	1.82	134.30	121.19	130.18	135.49	92.84	86.37
Belgium (63)	136.11	+0.7	124.95	133.59	+7.4	4.09	137.93	124.46	139.17	137.97	125.59	113.38
Canada (124)	151.21	+20.4	138.81	128.92	+18.8	3.10	151.96	137.12	128.90	151.96	124.82	123.93
Denmark (38)	212.30	+24.8	194.89	212.96	+34.0	1.47	215.79	194.72	212.78	219.89	166.35	123.88
Finland (26)	141.56	+8.2	129.95	126.88	+11.0	2.16	143.41	129.41	126.41	169.16	125.81	126.96
France (127)	129.35	+12.4	118.75	130.37	+19.3	2.91	132.38	119.46	131.29	133.44	112.87	91.96
West Germany (100)	97.90	+11.3	89.88	98.58	+19.0	2.11	98.84	89.19	98.69	100.83	79.68	74.93
Hong Kong (49)	107.91	-3.5	99.07	108.15	-3.5	4.99	110.76	99.95	111.01	140.33	98.41	108.00
Ireland (17)	156.35	+18.8	143.54	156.58	+26.9	2.68	158.05	142.62	158.84	189.12	125.09	131.94
Italy (97)	93.91	+10.3	86.21	95.79	+15.4	2.34	94.25	85.05	94.62	94.79	74.87	71.95
Japan (455)	188.60	-1.5	173.14	166.19	+9.8	0.48	192.38	173.60	166.48	200.11	164.22	168.36
Malaysia (36)	167.93	+31.0	172.52	192.96	+28.9	2.49	190.19	171.62	195.07	190.86	143.36	153.59
Mexico (13)	267.00	+65.0	245.11	740.02	+82.8	0.68	265.22	239.33	738.55	277.40	163.32	166.65
Netherland (43)	128.86	+14.6	118.30	125.87	+22.5	4.11	129.41	116.78	124.33	130.67	110.65	106.38
New Zealand (21)	77.11	+14.1	70.79	68.71	+20.6	5.42	74.88	67.58	68.32	77.11	62.84	61.19
Norway (24)	174.95	+25.9	160.61	164.96	+33.3	1.57	181.21	163.52	168.49	186.39	139.92	119.87
Singapore (26)	165.18	+32.0	151.64	148.68	+32.7	1.91	167.65	151.28	150.35	169.43	124.57	134.67
South Africa (60)	153.09	+31.0	140.54	139.28	+41.8	3.87	153.16	138.21	139.21	163.27	115.36	115.05
Spain (43)	155.37	+4.7	142.64	140.25	+10.1	3.69	157.57	142.18	139.76	168.02	143.14	147.97
Sweden (35)	184.18	+27.4	169.08	178.32	+34.5	1.95	186.63	168.41	176.41	187.77	138.45	118.43
Switzerland (64)	91.19	+16.8	83.72	92.46	+27.1	2.04	92.84	83.78	92.47	92.84	67.81	75.96
United Kingdom (311)	154.90	+14.5	142.20	142.20	+28.2	4.09	156.33	141.07	141.07	169.41	133.28	132.85
USA (552)	140.02	+23.7	128.54	140.02	+23.7	3.25	140.36	126.67	140.36	140.75	112.13	110.80
Europe (1005)	129.76	+13.1	119.12	123.86	+23.2	3.31	131.21	118.40	123.19	132.82	112.63	105.54
Nordic (121)	173.29	+24.1	159.05	162.00	+31.5	1.75	176.17	158.96	162.27	176.36	137.96	112.81
Pacific Basin (672)	183.96	-1.3	168.87	162.50	+9.8	0.70	187.54	169.23	162.81	194.72	160.44	163.44
Euro - Pacific (1677)	162.38	+3.0	149.07	146.98	+13.7	1.55	165.10	148.98	146.91	168.96	141.58	140.29
North America (676)	140.59	+23.5	129.07	139.34	+23.4	3.24	140.97	127.20	139.67	141.19	112.79	111.18
Europe Ex. UK (694)	113.82	+12.0	104.49	112.57	+19.3	2.72	115.27	104.01	112.16	116.28	98.30	88.80
Pacific Ex. Japan (217)	128.32	+3.0	117.80	116.45	+9.1	4.51	129.53	116.88	118.96	137.55	111.93	128.27
World Ex. US (1874)	161.96	+3.7	148.68	146.52	+14.1	1.82	164.59	148.52	146.45	166.35	141.42	139.48
World Ex. UK (2115)	152.88	+9.1	140.35	144.49	+16.0	1.96	154.72	139.62	144.66	155.66	135.98	127.80
World Ex. So. Af. (2366)	153.05	+9.5	140.50	144.30	+17.0	2.14	154.86	139.74	144.36	155.92	136.67	128.31
World Ex. Japan (1971)	136.28	+18.6	125.11	133.17	+22.9	3.32	137.10	123.71	133.11	137.40	114.51	109.95
The World Index (2426)	153.05	+9.6	140.50	144.26	+17.1	2.15	154.85	139.73	144.32	155.89	136.68	128.23

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

CONSTITUENT CHANGES: Deletions 3/8/89:Scanvest Ring (Norway) and Coalite Group (UK).Name Change 2/8/89 Pentland Inds to Pentland Group.

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS : 51,727

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

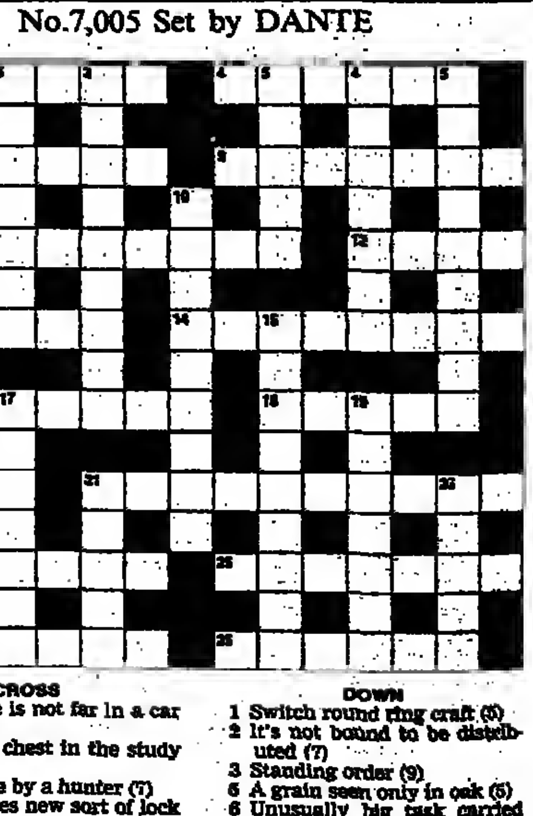
BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

JOTTER PAD

CROSSWORD

No.7,005 Set by DANTE



ACROSS

1 Winestore is not far in a car (6)
4 Stain the chest in the study (8)
8 Find made by a hunter (7)
9 Doctor tries new sort of look (7)
11 Point to one Duke or another (10)
12 He fell out of sympathy with his partner (4)
13 All for those making notes (6)
14 Change of plan? (8)
16 Quarter-deck cutters (8)
18 She upsets Diana (6)
20 Ring a girl to come round soon (4)
21 A girl who is tender to domestic animals (6-4)
23 A Gallic disposition is exceptionally cold (7)
24 Repel Sid with a return blow (7)
25 Songbird with little relation to others (6)
26 Unions strangely in agreement (6)

DOWN

1 Switch round ring craft (5)
2 It's not bound to be distributed (7)
3 Standing order (9)
5 A grain seen only in oak (5)
6 Unusually big task carried out by servicemen (3-4)
7 Lost again in sentimental longing for the past (9)
10 Now for a West End gift (5-7)
13 What figures cost girls display (9)
15 I landed awkwardly on a plant (9)
17 Threatens to give the employees their cards? (7)
19 Mother takes a long time to get compensation (7)
21 Habit Tommy got into (5)
22 Son is out to be a writer (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 19.

WORLD STOCK MARKETS

CANADA

TORONTO
Closing prices August 4

Total Sales 8,338,147 shares.

MONTREAL
Closing prices August 4

INDICES

NEW YORK DOW JONES

	Aug 4	Aug 3	Aug 2	Aug 1	1989 High	1989 Low	Since compilation High	Since compilation Low
♦Industrials	2653.45	2661.61	2657.44	2641.12	2661.61 (3/8)	2344.64 (3/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	93.83	94.13	94.15	93.91	94.15 (2/8)	87.35 (23/3)	-	-
Transport	1250.00	1266.89	1273.47	1278.98	1278.98 (1/8)	959.95 (3/1)	1278.98 (1/8/89)	12.32 (8/7/32)
Utilities	218.18	218.81	219.19	220.45	221.20 (31/7)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2679.44 (2676.97) Low 2629.17 (2640.74)

STANDARD AND POOR'S	Aug 4	Aug 3	Aug 2	Aug 1	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite‡	343.92	344.74	344.34	343.75	346.08 (31/7)	275.31 (3/1)	346.08 (31/7/89)	4.40 (1/6/32)
Industrials	393.14	393.62	393.02	392.20	395.68 (31/7)	318.66 (3/1)	395.68 (31/7/89)	3.62 (21/6/32)
Financial	33.20	33.05	33.34	33.11	33.34 (2/8)	24.30 (3/1)	33.34 (2/8/89)	8.64 (1/10/74)
NYSE Composite	191.64	192.09	191.78	191.38	192.41 (31/7)	154.98 (3/1)	192.41 (31/7/89)	4.46 (25/4/42)
Amex Mkt. Value	376.10	376.82	375.48	375.81	376.82 (3/8)	305.24 (3/1)	376.82 (3/8/89)	29.31 (9/12/72)
NASDAQ Composite	457.42	456.93	454.08	453.29	457.42 (4/8)	378.56 (3/1)	457.42 (4/8/89)	54.87 (31/10/72)

	July 28	July 21	July 14	year ago (approx.)
Dow Industrial Div. Yield	3.44	3.47	3.54	3.31
	Aug 2	July 26	July 19	year ago (approx.)
S & P Industrial div. yield	3.28	2.90	2.92	3.12
S & P Indl. P/E ratio	14.43	14.22	14.10	14.10

TRADING ACTIVITY † Volume Millions

	Aug 4	Aug 3	Aug 2
New York	169.750	168.690	183.152
Amex	14.096	12.823	13.831
OTC	133.671	146.005	130.180

NEW YORK	Aug 4	Aug 3	Aug 2
Issues Traded	1,986	1,977	1,988
Rises	636	846	846
Falls	849	625	666
Unchanged	501	506	476
New Highs	146	193	165
New Lows	13	13	14

CANADA TORONTO

	Aug 4	Aug 3	Aug 2	Aug 1	1989 High	1989 Low
Metals & Minerals	3630.7	3654.5	3653.3	3485.4	3654.5 (3/8)	3207.3 (3/1)
Composite	3985.2	3981.0	3980.5	3963.8	3985.2 (4/8)	3350.5 (6/1)
MONTREAL Portfolio	2017.66	2018.67	2018.67	2020.70	2022.05 (31/7)	1677.48 (3/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
IBM	2,406,400	115½	+ 1¼	Reebok	1,765,000	14½	+ ⅛
Varity	2,261,300	2⅝	+ ⅛	Union Carbide	1,721,700	28⅞	+ ⅜
Armco	2,093,100	12	+ ⅝	Marion Lab	1,717,000	36¼	+ ⅝
Prime Computer	1,940,700	17¼	+ 1⅛	Placer Dom	1,572,200	16	---
Dow Chemical	1,806,700	93	+ 1¼	Salomon	1,415,000	26	- ⅛

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1973 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Aug. 4	Aug. 3	Aug. 2	Aug. 1	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1670.9	1664.6	1644.9	1638.6	1670.9 (4/8)	1412.9 (7/4)
All Mining (1/1/80)	(u)	781.7	771.8	765.1	781.7 (3/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	378.87	370.19	367.18	365.00	378.87 (4/8)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6272.30	6245.02	6208.77	6191.77	6272.30 (4/8)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	351.29	352.20	353.64	352.70	356.65 (12/7)	275.49 (27/2)
FINLAND						
Unitas General (1975)	780.3	781.2	781.2	779.7	815.8 (18/4)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	504.7	506.8	505.9	504.9	506.8 (3/8)	417.9 (4/1)
Ind. Tendance (30/12/88)	120.9	120.8	120.8	120.5	122.4 (28/7)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	653.14	648.95	654.69	649.82	654.69 (2/8)	535.78 (27/2)
Commerzbank (1/12/53)	1957.5	1944.6	1962.8	1946.5	1962.8 (2/8)	1595.7 (27/2)
DAX (30/12/87)	1590.30	1574.88	1587.35	1578.91	1590.30 (4/8)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2579.07	2634.58	2582.83	2578.96	3309.64 (15/5)	2093.61 (5/6)
ITALY						
Banca Com. Ital. (1972)	697.05	689.45	686.31	683.11	697.05 (4/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	34741.99	34779.81	34899.34	34898.4	34953.87 (31/7)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2613.27	2616.69	2633.24	2627.62	2633.24 (2/8)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen (End 1983)	261.7	258.8	259.0	258.7	261.7 (4/8)	208.3 (3/1)
CBS All Shr (End 1983)	203.7	201.4	201.6	201.3	203.7 (4/8)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	627.52	637.68	648.28	650.87	668.90 (14/7)	467.17 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1349.18	1359.71	1362.27	1367.08	1372.29 (25/7)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1681.0‡	1685.0	1657.8	1616.0	1685.0 (3/8)	1291.0 (15/2)
JSE Industrial (28/9/78)	2754.0‡	2738.0	2729.8	2700.0	2754.0 (4/8)	1961.8 (3/1)
SPAIN						
Madrid SE (30/12/85)	308.76	307.77	306.87	305.69	315.90 (13/6)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4489.9	4490.6	4491.1	4458.4	4491.1 (2/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	792.5	792.6	784.1	(c)	792.6 (3/8)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	545.4	551.2	548.0	551.2 (3/8)	487.6 (13/6)

‡ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday August 4 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Toshiba	9.59m	1,340	0	Daiwa House	4.51m	2,580	-20
Nippon Steel	8.13m	889	-11	Stanley Elec	4.30m	1,340	+20
Nippon F&M	7.48m	1,420	+40	Konica	4.23m	1,500	+40
Sumitomo R&D	6.37m	2,160	-30	Sumitomo	4.0m	1,530	0
Mazda	4.63m	1,050	+30	Sumitomo Metal	3.99m	615	-12

AMEX COMPOSITE PRICES
4pm prices August 4

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

4pm prices August 4

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
33⅛	21¼	AAR	.44	1.4	21	96	33	32½	32½	– ½
10⅛	8½	ACM n	1.01	11.		x141	9⅛	9⅛	9⅛	
11⅞	10¼	ACMI4	1.28a	11.		634	11⅝	11½	11⅝	+ ⅛
[illegible]	8½	ACM M	[illegible]	11.		x178	[illegible]	[illegible]	[illegible]	+ ⅛
11½	10	ACM Sc	1.26	11.		619	11⅝	11⅜	11⅝	
9½	8⅞	ACMSp	1.01	11.		461	9⅛	9⅛	9⅛	
18	[illegible]	AL Lab	.12	.7	19	152	17½	17¼	17½	– ½
4⅝	[illegible]	AMCA	.12e	[illegible]	27	42	4	3⅞	4	
8⅛	4½	AM Intl				739	5⅛	5⅛	5⅛	
23½	20⅞	AM In pf	2	9.2		245	21¼	21⅛	21¼	+ ¼
[illegible]	40⅞	AMR			8	7763	82⅞	[illegible]	82	– ¼
27	[illegible]	ANR pf	2.67	10.		1	[illegible]	[illegible]	[illegible]	
24⅞	23¼	ANR pf	2.12	[illegible]		1504	24⅜	24⅛	24⅜	+ ⅛
6⅞	3⅝	ARX				64	4¼	4⅛	4⅛	
44⅛	[illegible]	ASA	3e	[illegible]		876	43⅝	42¼	42½	– ⅜
22⅛	15¼	AVX	.24	1.3	9	293	18⅞	18½	18⅞	– ¼
[illegible]	40⅛	AbtLab	1.40	2.2	18	2680	[illegible]	[illegible]	[illegible]	– ⅜
[illegible]	13¼	AbitibI g	1			159	14½	14⅜	14½	– ⅛
13	7½	AcmeC	.40	3.5		72	11⅝	11⅝	11⅝	
8⅞	5⅞	AcmeE	.32	[illegible]	10	1	[illegible]	[illegible]	[illegible]	
34⅞	20¼	Acuson			24	206	20⅞	[illegible]	[illegible]	– ½
16⅞	14¼	AdaEx	1.82e	11.		117	16½	16⅜	16⅜	+ ½
13¼	7⅛	AMD				2465	9	8½	8⅞	+ ⅞
39¼	26¼	AMD pf	3	[illegible]		13	31¼	31	[illegible]	+ ¼
11⅞	8½	Adobe				72	10⅛	10½	10½	– ¼
19⅜	16½	Adob pf	1.84	[illegible]		14	[illegible]	[illegible]	[illegible]	
21⅞	18⅞	Adob pf	2.40	11.		12	21⅛	21	21¼	+ ⅛
8¼	6⅛	Advest	.12	1.4	16	150	8⅞	8⅛	8⅛	+ ¼
[illegible]	48	AetnLf	2.70	4.8	9	2247	[illegible]	[illegible]	[illegible]	+ ⅛
14	12⅝	AflPb				773	[illegible]	13	13	
23¼	14⅞	Ahmans	.88	2.8	11	3464	[illegible]	22⅛	22⅞	– ¼

[illegible]

Continued on Page 29

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

OVER-THE-COUNTER

Nasdaq national market, 4pm prices August 4

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
[illegible]							
Welohn	.28	9	132	17¼	17	17¼	− ½
WivEx lt			555	8	7⅞	7⅞	+ ⅛
Worthg	.48	15	479	24⅛	24	24⅛	− ⅛
Wyman	.60	116	392	18	17¾	17¾	
− X − Y − Z −							
XL Dia s		20	363	23¾	23¼	23½	+ ⅛
XOMA			223	16¾	16	16¼	
Xicor		9	347	8¼	8	8	
YelowF	.76	16	972	20	21¾	28	
ZionUt	1.44		16	27¼	27	27¼	− ¼
Zycad			35	2⅞	2⅝	2⅝	

The Business Column

Two-edged appeal of consumer electronics

For all the excitement generated by the colour television set, the hi-fi and the video recorder when they were first introduced, it takes some imagination nowadays to see them as more than standard living room furniture. Their mundane nature seems appropriately summed up by the generic description "brown goods."

Such products are also becoming relatively less important to Japan's electronics industry, which once relied on them for its bread and butter. Their share of its domestic output has dwindled to a mere 20 per cent as production has been shifted offshore, particularly to south east Asia.

Indeed, Matsushita, Japan's biggest electronics manufacturer, formally designates consumer electronics a "mature" business. Like many rivals, it is looking for much of its future growth to more sophisticated products such as office automation and telecommunications systems.

Yet, in the West, the consumer products business is increasingly being exalted as the harbinger of the next revolution in information technology. Philips, Europe's biggest producer, argues that without a strong consumer sector, it will be impossible to survive for long in other mainstream electronics markets.

In the US, most consumer production was abandoned to the Japanese in the 1970s. But American industry lobbyists are today insisting on the vital importance of re-entering the business as part of their campaign to win federal support for ambitious plans to catch up in the development of high-definition television (HDTV) systems.

Three-fold importance

Is this another case of western industry getting it wrong, by jumping into a market just as the Japanese are pulling out? Not really. Though the Japanese have widened their horizons well beyond consumer electronics, they are far from abandoning the activity. On the contrary, they acknowledge that it remains an indispensable weapon in their industrial arsenal.

Its importance is three-fold. First, the high volumes and low margins which rule consumer electronics spur manufacturers constantly to new heights of efficiency and technical ingenuity. The experience gained is of immense value in the design and manufacture of many other products, even those made in small batches.

Second, consumer products are huge users of semiconductors, particularly of inexpensive standard devices such as DRAMs. One reason the Japanese dominate the world DRAM market is that their in-house microchip activities have been underpinned by demand from their consumer electronics operations.

Third, the mass-production methods pioneered in consumer electronics are increasingly being applied more widely to create new markets. Japanese manufacturers have brought photocopiers, computer printers and facsimile machines to a much larger public by turning them into low-cost commodities, affordable out of disposable income.

However, the industry is notoriously unforgiving. It requires a regular flow of "hot" new products to whet customer appetites. Yet the speed with which successful innovations can be copied invites fierce competition, which keeps profits on many items exceedingly slender. The cost of developing new products is constantly rising, while the industry is particularly prone to excess capacity.

In these respects, consumer electronics has much in common with semiconductors. Both activities have a multiplier effect, generating spin-offs which transcend their direct economic importance. These benefits can be captured only through a whole-hearted commitment, not by dickering around on the margins. Yet, on any risk-return calculation, they look unappealing as business propositions.

On industrial and technical grounds, the born-again conversion of many Western companies to consumer electronics may have a compelling logic. Persuading their shareholders to share their enthusiasm is likely to be quite another matter.

Guy de Jonquières

THE MONDAY INTERVIEW

A triumph for consistency

Mariano Rubio, Governor of the Bank of Spain, speaks to **Peter Bruce**

The only evidence we have of a romantic side to Mr Mariano Rubio Jimenez, the Governor of the Bank of Spain, is that he spirited his fiancée off to Vienna late last year to get married.

Although the Governor is sometimes given, in summer, to wearing a loud cream suit, he is a serious, almost imperious, man. Mr Rubio represents a triumph for consistency in a country where many institutions, including the Bank, have been buckled and bent beyond recognition in the last 20 years.

When he joined the Bank, Franco was still appointing puppet governors in close consultation with the old commercial banking families that toadied to him. After the advent of democracy and through the subsequent banking crisis, Mr Rubio was passed over as governor when a younger and less experienced man was appointed over his head.

But his knowledge of Spanish banking, added to his close association with senior figures in the now governing Socialist Party, eventually won out. He has since greatly strengthened the Bank's role.

Today Mr Rubio, 58, is the most effective weapon in the Government's efforts to wrestle inflation and to stop Spaniards spending more than they earn. Now that control over Spanish monetary policy has finally been won by the Bank, Mr Rubio is exercising the influence he has worked so long to achieve.

For more than a year, in the face of considerable Cabinet scepticism, he argued openly for the peseta to be placed into the exchange rate mechanism of the European Monetary System. Last month he won. But he growls at criticism that he should have waited for inflation to fall from 7 per cent before subjecting the currency to EMS discipline. "I don't believe you enter the EMS only when there are no more problems," he says. "That's why the system exists – to help us with problems."

He joined the Bank of Spain in 1965 – after two years as the first Spaniard in the OECD in Paris and a stint in the Finance Ministry – as deputy of research. The department then had a staff of two and, politically, the Bank was one of the Franco regime's outsiders. Today the research department is the most powerful economic think tank in the country. Although Mr Rubio is associated with the so-called "beautiful people" who descend on Marbella in the summer, he has not had an exotic career.

He has left the bank for only two short periods. In 1970 he accepted a senior job in the Finance Ministry and was criticised for supping at the Francoist table. He resigned after an infamous court martial in Burgos – where he was born – sentenced six Basque activists to death. Back at the Bank he was punished by being given little to do and he left again in 1973.

After Franco died in 1975, Mr Rubio went back and slowly helped build up the research department, hiring the best young economists he could find. Miguel Boyer, Prime Minister Felipe Gonzalez's first Finance Minister, worked in the research department. So did Carlos Solchaga, the present Finance Minister.

Mr Rubio claims he has never been interested in a political life. But like many students, he was linked to demonstrations against the dictatorship in 1956 and was sentenced to two years in jail. He and some friends had already fled Spain, however, and he benefited from one the pardons with which Franco marked each new papal reign. "The death of [Pope] Pius XII saved me," he remembers.

Is he now a member of the governing Socialist Party? "An Englishman would never ask such a thing and, since you are English, I haven't received the question," he says. Party headquarters say he is not a member. He none the less exercises greater power than most European central bankers.

Mr Rubio was deputy to Jose Ramon Alvarez Rendueles, more than 10 years his junior, during the post-Franco transition to democracy, which coincided with Spain's late adjustment to the 1973 oil shock. This was also a transitional period for the Bank, which won its independence as an institution and had to deal with the banking crisis which culminated in the dismantling of Mr Jose Maria Ruiz Mateos's Rumasa empire in 1983.

Bankers say it was Mr Rubio, the quiet insider, who ran the Bank during the crisis which laid bare the need for better supervision of the banking system. By 1984, when Mr Rendueles had served two terms, the new Socialist Government had little choice but to nominate Mr Rubio to succeed him. The authority of the research department and his links with senior socialists have since made him near invulnerable.

Friends also say he works indecently hard. "He has been *the* key figure in our sector for 12 years," says Mr Luis Vals, chairman of one of Spain's big commercial banks, Banco Popular. "His strength is his information. He knows his stuff. He always knows more than we do." It was probably inevitable that the lines between research and supervision at the Bank would blur. With entry into the European Community in 1986 and the start of the boom, the Governor has become one of the economy's centre forwards. His independence, coupled with the need to intervene constantly in Spain's private banking, is part of his power.

He is credited with having "placed" his choices at the top of Banco Hispano Americano and Banesto, two big commercial banks. Last year, during the attempted merger between Banesto and Banco Central, he appeared first to support it and then to side with its opponents. Whichever the case, once he had remarked that boardroom infighting over the merger in Banesto was "worrying", no one would have put money on the merger succeeding.

Although protective of Spain's banking system when challenged by outsiders, he treats the banks with profound distrust and is ruthless when he wants to be. In January, after interest rate rises last summer failed to brake spending, he forced banks which were borrowing cheap funds abroad to lodge 20 per cent of each loan with the central bank but still to pay interest on the total. He also pushed up bank reserve requirements, but inflation and spending continued to rise. The Government chipped in three months later with some mild fiscal measures. Soon after that Mr Rubio won the EMS debate.

"Whenever we Spanish have taken measures to open up our economy we have had tremendous success," he says. "What has happened is that rises in interest rates that in any other country would have produced a weakening of spending have not had that effect in Spain." The obligation to hold the peseta within its agreed 6 per cent band in the system gives him and the Bank even more muscle. Last month, in a co-ordinated swoop with the Finance Ministry, he raised reserve requirements even higher (by one point to 19 per cent and, worse, the reserves affected this time attract no interest) and extended them to a string of lucrative new banking products.

Days later, he was at it again. With private credit up 22 per cent this year, interest rates already touching 15 per cent for prime borrowers, the current account deficit heading towards $10bn instead of the $8bn forecast, and year-on-year inflation at 7.1 per cent, Mr Rubio called leading bankers to his headquarters in the centre of Madrid. He told them, quite simply, to stop lending so much money. They, equally quickly, promised they would. Why should he trust private bankers to stop doing what comes naturally? "It's a last resort and we don't like doing it," he says, "but I'm sure the banks will comply. We have a lot of weapons at our disposal."

Bankers believe that. "When we (bankers) meet him he is always friendly," says Mr Vals at Banco Popular. "But at bottom he is very hard." Though Mr Rubio does not seem to mind the press attention his monetary head-banging receives, he is nevertheless uncomfortable with the extent to which responsibility for fighting inflation has fallen on the Bank. "We need a better balance between fiscal and monetary policy," he says, "though by its very nature fiscal policy takes a long time to have an effect. Monetary policy will have to continue to play a decisive role in short-term policy-making."

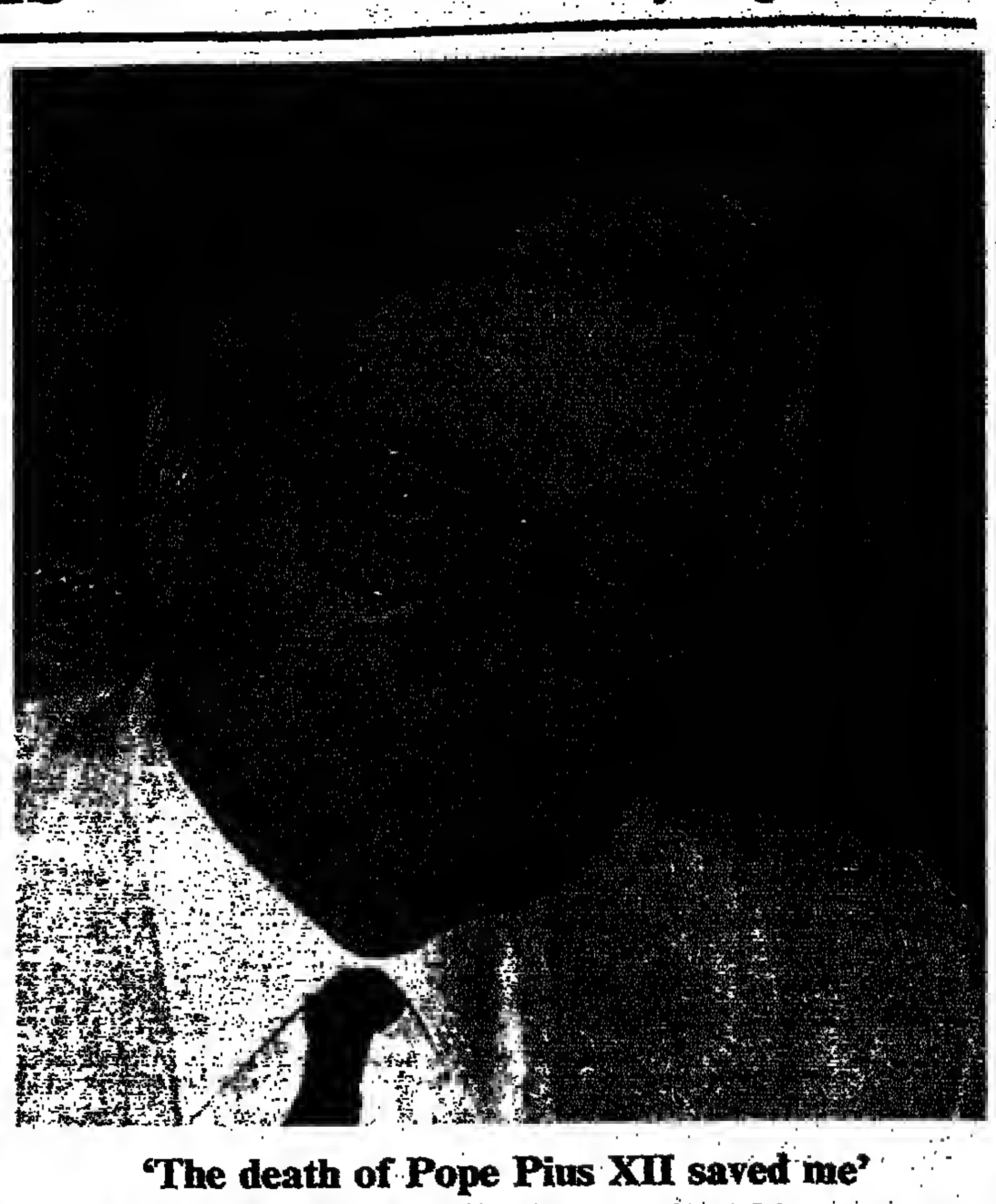
The Government seems to have got the message. The 1990 budget is expected to grow less than 10 per cent, after a 14 per cent rise this year. "It will be a very strict budget," Mr Rubio thinks, "very different from last year. It will make a clear contribution to reducing inflation."

He will not say whether he intends to stand for a third term as Governor. "I like the public service," he says, and the country's growing importance in Europe is bringing fresh challenges to the job.

A supporter of the Delors report on economic and monetary union in the EC, he worries that the UK may not join the full process. "It would be a great pity if Britain stayed out," he says. "It would be very counterproductive." Does he think the EC would go ahead without the UK? "My personal impression is yes, they would," he says. Nowadays, the Spanish opinion is one worth listening to – a long way from the days when Bank of Spain governors emerged from Franco's pocket.

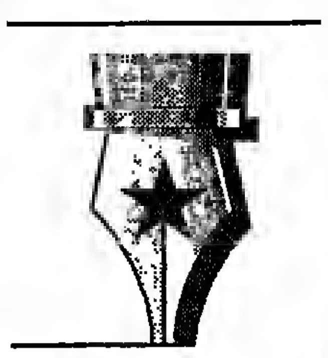
PERSONAL FILE

1931	Born, Burgos. Educated, University of Madrid
1960	OECD official
1965	Deputy chief, Bank of Spain research department
1970	Head of research department, Bank of Spain
1970-71	Finance policy chief at Treasury
1977	Deputy Governor, Bank of Spain
1984	Governor, Bank of Spain



'The death of Pope Pius XII saved me'

Bright ideas for getting ahead in Poland



Eastern Europe Notebook

Returning to his native Poland after a 10-year hiatus earlier this year, the film director Roman Polanski observed that where 10 years ago everyone talked about politics and culture, now everyone talks about money.

This is a complaint often heard from the British intelligentsia, but in their case it is voiced as a prelude to criticism of the Prime Minister. Popular as she is here in Poland, she cannot bear the blame, or as she would put it take the credit, for Polish materialism. So where do we look?

First, though, is Polanski right? My impression is that he is. There must be 50 ways to make a killing in Poland now – provided you have some ingenuity and guts. They do take up much conversational time, precisely because a lot of information about new possibilities and theses has to circulate and because the staple of gossip is the passive talking about and disapproving of what the active are doing. They are also interesting in their own right: real chess games of the mind and the nerves. Here are some of the ways:

● Put an advertisement in the newspaper to rent your flat for dollars. Since there is a chronic shortage of accommodation – for example for employees of foreign companies, for office space and so on – you are in a seller's market. Having found a tenant, move in with your parents. In three years you can buy a Mercedes.

● Order a new car from Polmozbyt, the state supplier. (You will have to wait about 10 years.) When you are finally assigned it, offer it for sale at twice the state price. You will get it in dollars.

● Persuade the state or a co-operative to rent you a shop. Form a "joint venture" with a Western supplier: he ships the products, you sell them, for dollars. You should have a Mercedes in two years.

● Open a co-operative shop – say, a laundry. Wait until someone wanting to open a "joint venture" shop offers to rent it. Refuse to rent it until he makes no higher offer. Rent it to him. The co-operative need never work again.

● Persuade your local municipal housing office to rent or sell you the attic floor of the old-style flat blocks which are customarily empty, used for drying the tenants' clothes. (This will mean bribery of the officials and the tenants.) Have a super penthouse apartment built. Sell it for $100,000, the current market rate. You need never work again *and* you can drive a Mercedes.

● Answer an advertisement in the newspaper, placed by a "joint venture" company, asking for the use of your hard currency account – because, like everyone else, it hasn't enough of its own. At the company's request, buy, for example, a tonne of chemicals in West Germany. Give it to your mother-in-law. (Thus fulfilling a popular fantasy of what you would most like to give your mother-in-law.) The company then buys the chemicals from your mother-in-law. She declares this as a gift, and pays only 20 per cent tax on part of its value (which the company also pays). You get a large commission from the company and continue in business. You need never work again, and you produce endless amusement for the tax officials as well as being a good son- or daughter-in-law.

All of these bright ideas are currently being practised in Poland, and they are only a fraction of the whole. Poles are now the traders of East-Central Europe – turning up in their battered little Polski Fiats and Polonezes from West Berlin to the Soviet-Hungarian border, wherever a deal can be done with currency and commodities.

As more and more people realise that Polish money prices are absurdly cheap to foreigners changing their dollar for Zs 5,000-6,000 (so that a long taxi ride could cost 50 cents, a full, if bad, meal for two cost $1), so the prices are jacked up. I had a long and heated argument with a taxi driver in pidgin German over a fare for which he wanted $5. It was a snip by Western European or US standards, a terrible rip off for Warsaw. He appealed not to any yardstick of fairness or reasonable remuneration for his labour, but to the fact that I was a foreigner and thus rich. ("Das ist nicht fur Sie.") Polanski probably met the same man.

Swinging about in the vicious eddies and tides which run between the abandoned command economy and the unattained market economy, Poland offers opportunities, largely, only for activities which had been illegal: black marketeering and are now mainly legal but retain the same form as before – that is, they operate in the area *between* regulation and market, an area which is by far the most dynamic and profitable but which makes wealth directly only for a few and produces no commodities and few services.

The mute millions in the meat queues, the slovenly workers in the decaying plants and delayed construction sites, the oppressed women picking through lines of state-produced clothes which look as if they have been cut with an axe and sewn with a stapler – are mostly left out of this and as yet have found, or have been given, no way in.

As another general pnts together another government on the ruins of a former government which had been billed, less than a year ago, as uniquely capable of stimulating Polish creativity and enterprise, he must be aware of how much latent hostility is in the present political silence, how shallow the roots of the market presently are, how uprooted and withering are the never-sturdy plants of Polish commism.

As far as one can tell, the evident materialism of the Poles is their own creation: "own" in the sense that this European nation has increasingly realised how badly off it is compared to the West and, since the collectives endeavour to catch up has so clearly and self-confessedly failed, they are seeking to catch up individually – as they can, pell mell, devil take the hindmost. Communists and Solidarity members, intellectuals and artists, peasants and taxi drivers.

It is possible that this is the only way in which the market can begin in a former command economy – that over time, these semi-shady transactions become more general and more widespread; that the benefits trickle out; that foreign capital, bit by bit, colonises the crumbling heights of Polish industry and finance.

In my view, the foreign capitalists should get here quick. The energy and inventiveness shown by Poles in exploiting the opportunities offered for money-making within the decay of the planned state proves them to be a new reservoir of personnel for another capitalist surge: the Japanese (class of 1950) of Europe.

It may be objected that the Poles lack the Japanese work ethic and are over-prone to striking. Remember that Japanese workers were regarded as slipshod and militant in the 1950s, and it took private (gangster) armies and the state to stamp out the influence of communism and socialism on the Japanese working class. In that sense Poland is ahead: the influence of communism is being effectively and more gently stamped out by the Polish United Workers (Communist) Party. Dialectical materialism is yielding, as rapidly as it is able, to frank meterialism.

And if Polanski doesn't like it let him get back to Hollywood.

John Lloyd